SMALL BUSINESS ACCESS TO HEALTHCARE

FIELD HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

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SMALL BUSINESS ACCESS TO HEALTH CARE

MONDAY, JULY 9, 2001

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10 a.m., at the Wheeling Township Offices, 1616 N. Arlington Heights Road, Arlington Heights, Illinois, Hon. Donald A. Manzullo [chair of the Committee] presiding.

Chairman MANZULLO. Good morning. The United States House of Representatives Small Business Committee will come to order on the field hearing that we're having here in Congressman Kirk's Congressional District. At the beginning of this year, I became Chairman of the House of Representatives Committee on Small Business. We're charged in the broad oversight to investigate issues involving extremely important component of our economy, the small business community, which represents 99.7 percent of all employers and employs 53 percent of the private work force.

When my friend from the 10th District of Illinois asked me to hold a health care access field hearing, I jumped at the opportunity to investigate a such timely and significant issue. More timely than I thought. The Patients Bill of Rights is coming before the House of Representatives next week.

Unfortunately, small business people have great difficulty providing health insurance for their families, employees, and others. This dilemma is uncharacteristic and it's ironic. Unlike larger corporations where CEO's are solely charged to provide a bottom line profit before the company shareholders, and rarely interact with employees, most small entrepreneurs have the unique opportunity to maintain personal relationships with their workers.

Small entrepreneurs are not just employers. They're friends and neighbors. In fact, it's not uncommon that a small entrepreneur with limited resources will choose to insure his or her employees before providing for his or her own families.

A lot of that is because health—cost of health insurance premiums is not a hundred percent deductible for the employer, but it is for the employees. Figure that one out. Small businesses are not simply offered the accessibility to the quality health care coverage at afforded cost. I know this from personal experience where a family that is involved in Italian restaurant business for years, and has 13 tables and 13 bar stools; my brother is the operator of it, and his cost of health and accident insurance just for him and his wife is seven hundred dollars a month. It's frightening. They don't even offer health and accident insurance to their employees

because it would be cost prohibitive and they couldn't stay in business. The best health care system for America is grounded in the free enterprise system.

Congress can still work to eliminate areas in the tax and regulatory code that punish small businesses from purchasing affordable health care.

At this time, I would like to recognize Mrs. Biggert, a fellow member of Congress from an adjoining Congressional District for an opening statement, and then to Congressman Kirk.

Mrs. BIGGERT. Good morning. I want to thank my colleagues, Chairman Don Manzullo, for holding this field hearing and for Representative Kirk in hosting this field hearing in this area.

I grew up in the 10th District, so I feel right at home. I guess it's safe to say that today's hearing just proves the theory that you can go home again. So, it's nice to be back in the area.

As a member of the House Committee on Education and the Workforce, I was very pleased when Congressman Manzullo asked me to join in today's hearing, even though I'm not on the Small Business Committee. And probably you're asking, then well, why would a member of the Education and Workforce Committee want to be included in a hearing about health care and small business? Well, it's because the Education and Workforce Committee has jurisdiction over ERISA and ERISA issues. And what is ERISA? ERISA is the Employee Retirement and Income Security Act, and is the law that applies to employers who are self-insured, so that's why I'm here. And it's because the Patients' Bill of Rights is a workforce issue.

And it's also an issue that has dramatic impact on whether employers continue to offer health care coverage as an employee benefit in the future.

For most employers in America, health care coverage is far and away the largest employee benefit offered to workers. But for so many small business owners, employee health care is a benefit that they would very much like to offer, but they cannot afford to do so under the system as it exists today.

And for many self-employed business owners and their families, health insurance is treated as a luxury under our tax code, which does not allow them full deductibility. So, health care certainly has moved to the forefront of Congress's agenda, and rightly so. Depending on which estimate one uses, there are at least 43 to 44 million Americans that currently do not have health coverage, and these are frightening numbers in themselves, but it seems that they're getting lost in the clamor to pass a Patients' Bill of Rights. So, what we need to do, and our challenge really is to work with state officials and health care providers, and employers to enact patients protection for those who currently are covered, while at the same time reduce the numbers of uninsured Americans. And this last point is particularly challenging and relevant to today's hearing, as the majority of uninsured Americans are in families where at least one person is working full-time and usually in a small business. So I think that we the Congress will be able to address that problem, really in three ways. First would be the long-term solution is to financially empower the health consumer, and the second and short term answer lies with employers, businesses, large

and small, and I think we'll hear probably from our witnesses that will testify today that Congress has to do more.

And then the third is the most immediate solution, is for Congress to do no harm. And by that I mean that we should not pass any measures that will increase the number of uninsured Americans by increasing health care costs, and to discourage employers from offering health insurance as a result of expanded liability and unnecessary red tape. Mr. Chairman, I don't see how any of us can really justify increasing the specter of litigation that we've heard a lot about in the Senate Patients' Bill of Rights, and ratcheting up health care costs in the name of protecting patients. So, I think sometimes even the most well intentioned proposals that end up increasing the number of uninsured are bad public policy and a step in the wrong direction.

So, with that in mind, I think that we'll be able to hear what the witnesses have to say, and I know that there is a bill that's been proposed by Dr. Ernie Fletcher in the U.S. House—I keep going back to my roots of the Illinois General Assembly—But, that has put together a strong Patients' Bill of Rights, so that I hope that the witnesses will address some of that. And I think that we'll see floor action on that, as you said, next week. But, I know that our witnesses today who own and manage or work in a small business will have their own insider view of Dr. Fletcher's bill and the Senate Patients' Bill of Rights.

So, I'm eager to hear from all of our witnesses today, because they are the ones that are truly impacted by Washington's actions, and we want to be able to match their views with what our colleagues in the Senate and the House are proposing. So again, Mr. Chairman, thank you for allowing me to participate in today's hearing, and I look forward to hearing from our witnesses, and to working with Congressman Kirk on the efforts to ensure that Americans have access to quality, affordable health care insurance.

Chairman MANZULLO. Thanks very much.

[Mrs. Biggert's statement may be found in the appendix.]

Chairman MANZULLO. Congressman Kirk.

Mr. KIRK. Thank you, Mr. Chairman, and welcome to Arlington Heights, America's hometown. And I first want to thank the Wheeling Township officials for helping establish this hearing. This is a vital hearing for us. We have 41 million Americans without health care insurance. I think that government policy should close that gap so that more people have insurance rather than less. Northwest Community Hospital, other hospitals that we have here, their emergency room only collects 25 cents on every dollar of care given because of so many uninsured Americans getting care there, and it's done in the most expensive way at latest stages. If they had health care, they would come earlier to the doctor and be treated less expensively.

Half of all Americans work for small business owners, like the men and woman we have here today. Some of them are able to offer health care insurance to their employees. I want to particularly highlight what we're going to hear from Doug Weber on the United Way of Lake County, one of our leading charities, which are facing a 29 percent increase in health care insurance premiums. But also, Sammy Davis Jr., running Handyman at Work, who does

not offer health care to his employees, and is not able to. I think that we should make sure that health care is affordable for you; that we get tax advantages to you, and we make it at all possible through association, membership, or Medical Savings Accounts to make you able to care for your people and their families. We need to make sure that we expand health care coverage. I am strongly in favor of a Patient's Bill of Rights. We need to make sure that you have access to a second opinion, that you have a right to designate your OB/GYN as your primary care provider, or especially your pediatrician for your kids. But as we implement a Patient's Bill of Rights, and I think we will, we have to be careful. We have to make sure that we emphasize care, not court. I don't see how unleashing a liability wave and ending up in a lot of lawsuits helps the health care system.

I think that what we want to do is create a system which emphasizes that you get the care you need right away. The legislation that Congresswoman Biggert mentioned, also authored by Congresswoman Nancy Johnson of Connecticut, has another approach, separate from the Senate approach. It would establish an independent review panel of doctors appointed by the Secretary of Health and Human Services, and in urgent cases, within 24 hours they would be able to override a decision not to provide care through your HMO. If the plan still insisted on not providing care, then you go to court. Now, I don't know any plan that would override expert opinions and launch a lawsuit against itself. And I think this is a way that we emphasize care over court. Because I don't see how ending up in years-long litigation helps you. I think we need to reverse the decisions made to emphasize that you get care for yourself and for your family.

And I'm worried that the Senate bill has been estimated to raise health care premiums by an extra 4.2 percent, according to the Congressional Budget Office, and we want to make sure that we realize as we increase health care premiums, we make the pool of uninsured Americans larger. I think we should do the opposite, and make—and everyone have access to health care insurance, and that is particularly through the small business community that we're going to hear from here. So, Mr. Chairman, thank you. Thank you for coming.

Chairman MANZULLO. Appreciate it very much.

Mr. KIRK. And I'm happy that you're here.

Chairman MANZULLO. Glad to be here in your Congressional District. Your district is very compact, mine—my district runs from McHenry County all the way to the Mississippi River, and with redistricting, we go even further. We go from Algonquin to Fulton, Illinois; pick up three more counties, so nine counties; a lot of challenges there.

The rules are your testimony should be limited to five minutes, but I don't see a clock, Paul. Paul, do you?

Mr. DENHAM. We don't have a clock.

Chairman MANZULLO. Well, what you're going to have to do, is why don't you sit here behind me. When you get to four and-a-half minutes, maybe tap me on the shoulder, or bang me on the head or something, and then I'll sort of get a little fidgety (knocking gavel) and that gives you about a minute to finish up. I'm going

to have to leave here at eleven o'clock. We've been working on a Gulf War Syndrome Bill for four years now, and that's coming up very quickly tomorrow and I have to be in Washington later this afternoon, so I'll give you the gavel to conduct the hearing then.

Mrs. BIGGERT. Mr. Chairman, could I have unanimous consent to enter my statement?

Chairman MANZULLO. Absolutely. All the statements of the members of Congress, plus all the witnesses, can be entered into testimony. In fact, if there are any spectators out here that have any statements that they would want to be put into the record, I will allow that also. Make sure it's two or three or four pages and not a tome, because this is printed—the printing cost could be pretty expensive.

Mr. KIRK. That's gotta be expensive.

Chairman MANZULLO. That's correct. Okay.

First witness is Michelle—is it Kuhn?

Ms. KUHN. Kuhn.

Chairman MANZULLO. Kuhn.

Ms. KUHN. Uh-huh.

Chairman MANZULLO. And she is the president of——

Ms. KUHN. Aeffect, Incorporated.

Chairman MANZULLO. Aeffect, Incorporated, from Deerfield, Illinois. And, Michelle, we look forward to your testimony.

STATEMENT OF MICHELLE KUHN, PRESIDENT, AEFFECT, INC., DEERFIELD, IL

Ms. KUHN. Okay. Thank you. Good morning. My name is Michelle Kuhn and I'm president of Aeffect, Incorporated, a small, woman-owned business located in 10th District of Illinois. Aeffect is a marketing and communications research firm that consults with large corporations and federal government organizations.

I would like to begin this morning by first stating what we, as a group, may already recognize. That is, America needs small business, not only to allow people within this country to pursue the American dream, but also to provide our country with new products and services to facilitate economic growth and ensure America's leadership worldwide. It is important for our Government to nurture the growth of small businesses in order to allow them to survive.

My company, Aeffect, Incorporated, has been in business now for seven years, and many individuals conclude that we have passed the critical three to five years mark where most small companies fail. In fact, within the last few years, we made the transition from micro-company with a handful of employees, to a company that now employs approximately 20 full-time individuals and other freelance or part-time and freelance employees. This transition has allowed us a unique perspective on the impact of health care costs for the emerging company.

When our company was first established in 1994, we experienced considerable difficulty obtaining health care coverage, given that we had but a few employees. Moreover, the cost of this coverage per employee was relatively high, and in total, represented five percent of our annual revenue. Our health care costs were also

quite unpredictable from year to year and were unrealistically high by claims made by only one or two employees.

Since our size and employee count has grown beyond 10 employees, however, our perspective on health care coverage has changed dramatically. Once we exceeded 10 employees, our size classification pushed us into underwriting scenarios with different rate structures that made health care benefits somewhat more affordable. Additionally, with more employees, our health care plan cost per employee has been reduced somewhat. From the company's perspective, the cost of providing a fully sponsored PPO plan for our employees actually represents now less than one percent of revenue on an annual basis. Comparatively, the cost of our labor is our highest expense, representing about 35 to 40 percent of revenue.

Over the past few years, however, we have seen the cost of our health plan increase considerably, despite the fact that we've generally remained loyal to our insurer, and have not incurred major claims. Last year, the cost of our plan rose about 18 percent, while our insurer simultaneously reduced reimbursement proportions for in-plan expenses. Clearly, reduced coverage takes a larger share out of the take-home pay of our employees, and is specifically significant for single parents who must pay the cost of adding several dependent children onto the plan.

While I recognize that health care costs are rising rapidly, so too is the level of care that our employees are receiving. I do not support efforts on behalf of Congress to trim health company margins, given that I believe doing so will hamper research and development efforts that might some day save your life or mine.

In fact, I think our world's HIV epidemic provides a very good example of how alternative forms of government intervention may lead to reduce costs in the long run for small companies. As a small business that operates in an industry that has seen many individuals affected by HIV—that is the advertising and marketing industry—we believe that Government needs to escalate its efforts to encourage people to routinely practice safe sex and to engage in HIV testing. Small businesses, especially in our industry, struggle with how to balance compassion for the worker infected with HIV, and the cost associated with their care. Strong investments in insuring effective preventative communication can, over the long run, reduce the burden of health care costs for small companies.

Similarly, the Government can help small companies, like Aeffect, by helping us keep our people healthy. As a result of their resources and influence in the managed care market, larger companies provide and obtain special employee health education programs to prevent high cholesterol, hypertension, et cetera in employees and to prompt healthier behaviors such as physical activity. Such preventative and health education programs are nearly always absent from small company environment. Help us keep our employees healthier, by investing in health education and national prevention campaigns that over the long run can reduce our health care costs.

Government can also help small businesses by ensuring they are treated equitable and fairly when it comes to obtaining and providing a health care insurance coverage for their employees. Spe-

cifically, government can ensure that rates a small business pays per covered life are not dramatically higher than rates paid by larger companies. Because large companies pay lower rates, they can afford to expand coverage to the employee and his dependents. This makes it more difficult for small companies to be competitive in hiring and retaining employees in a market occupied by larger companies.

Similarly, government can help small businesses control other costs of operation——

Chairman MANZULLO. We are getting to a point, Michelle, okay?

Ms. KUHN. Okay. I'm just wrapping.

Chairman MANZULLO. All right.

Ms. KUHN. In order to offset rising health care costs. Specifically, government can streamline processes for government acquisitions, set aside contracts, SBA certifications, and SBA loan guarantees. To put this in perspective, my company's health care cost would have to increase nearly a hundred percent each year to equal the labor investment required to secure an SBA loan guarantee.

In summary, I would like to encourage the Committee on Small Business to think creatively and outside-the-box when comes to helping small companies bear the burden of rising health care costs. The answer to the issues at hand may lie in helping small business in ways that have nothing at all to do with health.

Chairman MANZULLO. Thank you very much. Appreciate that.

Ms. KUHN. Uh-huh.

[Ms. Kuhn's statement may be found in the appendix.]

Chairman MANZULLO. Our next witness is Doug Weber. He's the president and the CEO of the United Way of Lake County in Libertyville.

Mr. Weber, look forward to your testimony.

STATEMENT OF DOUGLAS E. WEBER, PRESIDENT AND CEO, UNITED WAY OF LAKE COUNTY, GREEN OAKS, IL

Mr. WEBER. Thank you very much. I'd like to welcome members of Congress also to our community and thank you, Congressman Kirk, for bringing this to Lake County and to the community.

I'm president and CEO of the United Way of Lake County, but I'm not a for-profit business, so I don't own United Way; it's owned by community and owned by the donors and cooperates with individuals who contribute to our organization. The rising costs of health care in America are having a negative and severe impact on the ability of health and human service organizations to help people in our community and our country.

According to the Internal Revenue Service, there are over eight hundred thousand non-profit, 501(c)(3) health and human service organizations in the United States. It estimate that at least 90 percent of these non-profit organizations have 25 or fewer employees. For most of these organizations, the largest budgetary expenditure is the salary and benefits of people who work for these organizations, many of who are not able to afford health care.

The staggering cost of increased health care insurance is impacting many non-profit organizations because they're not able to hire staff to perform needed services. Turnover rates at many non-profit organizations are 50 percent, or more, per year because of in-

creased health care deductibles and out of pocket costs. The effect—this affects productivity and the ability of the organization to provide the services that they are in business to deliver.

More and more employees and lower paying health and human service sector jobs are paying a much higher percentage of their pay for health care costs for themselves and their dependents. The United Way of Lake County is a relatively small employer, with 29 full-time paid staff. This year alone we experienced an increase of 40–47 percent in our HMO health insure costs. This is on top of increases in the past two years of 36 percent and 22 percent respectively.

We've had to eliminate our prescription drug card this year and increase our annual deductibles and out-of-pocket maximums to lower the actual impact our health insurance premiums, passing more of the cost on to our employees. Our primary source of revenue is from donations from individuals and corporations. During our last annual campaign, we raised over 11 million dollars last year in Lake County, thanks to the generosity of many, and are the second largest United Way in the State of Illinois, and 60th out of 1,400 in the nation. Our donors would not tolerate annual administrative costs increases in same proportions as our health care insurance costs increases. We have left several positions unfilled and cut other costs, in addition to our health plan changes, to accommodate our huge health care cost increases. We pride ourselves in only having a 12 percent administrative and fund-raising costs; we are working hard to maintain that.

Our organization is not able to afford the cost of dependent coverage, either, for our employees, and our employees must bear a hundred percent of the cost to cover a spouse, children or both. Yes, we offer a Cafeteria 125 Plan so employees can pay these expenses with pre-tax dollars, but a large portion of their pay is still going for health care costs. For each employee, this translates to an actual cost of $287.00 per month to cover the children, $416.00 to cover a spouse, or $703.00 to cover the entire family for each employee; and they pay a hundred percent of these dependent costs.

Organizations still are able to provide coverage for the individual employee at $319.00 per employee, but this is becoming difficult. A number of our employees, who are single parents, and are paid in the twenty-five thousand to twenty-nine thousand dollar range, must pay 15 percent of their gross income to provide their children with health care insurance. This is in addition to the $500.00 annual deductible and two thousand maximum out-of-pocket costs they must incur. One of our employees, who earns thirty-two thousand dollars annually, is paying $8,436.00 to provide health care insurance for his spouse and children. That translates to 26 percent of this individuals gross annual income. That does not include the $3,000.00 in deductible and out-of-pocket costs that they must incur.

That is outrageous.

Many other non-profit health and human services agencies in Lake County do not have the ability to provide employees with health care coverage at all. Something must done to control the staggering increases that health care providers are passing on to

small business, both non-profit and for profit, and to provide affordable access to health care for all.

United Way of Lake County's insurance premiums are based on the health care costs for our small group of 29 employees. While we're a relatively healthy bunch, we have experienced a few major medical claims that pushed up our health care experience costs.

We are told that our significant health care premium increases are direct correlation to the medical and prescription costs of our small group. Something must be done to allow smaller employers to pool together and spread the insurance costs among larger groups of employees and control health care costs.

The United Way of Lake County is the umbrella organization that supports 104 programs run by 48 separate non-profit health and human services organizations in Lake County. While most of these organizations are relatively small employers, ranging in size from one to 200 employees, when combined together, their total employment is over 2,800 individuals. If we could develop a pool for health insurance among these smaller organizations, we'd provide a much larger group to share health care costs. Nationally there are 1,400 local autonomous United Way organizations who are members of United Way of America, our national association based in Alexandria, Virginia.

In the past we've look for ways to pool health care insurance costs and programs, but have been challenged by difficulties in offering some time of national health care plan. There are potentially tens of thousands of non-profit agency staff in local United Way organizations and the agencies we support, that could pool resources and share health care insurance costs. There needs to be some type of national HMO or insurance plan to offer large groups of small employers.

Virtually all of the non-profit organizations in Lake County and around the country are experiencing devastating health care insurance cost increases. This is crippling their ability to provide the much needed human care safety net for people in need. Within increased health care costs like we are experiencing, non-profit agencies have to make very difficult choices. Do we cut staff; do we cut staff who are the lifeblood of the organization; do we reduce or eliminate health care coverage for our employees, resulting in lost staff and high turnover; or do we eliminate needed services.

Non-profit organizations rely on the generosity of individuals, corporations, foundations, and local state and federal government sources for their financial support. These contributors are investing in the good work that is done by each of the hundreds of thousands of these organizations they support. Something needs to be done to control the increasing rate of health care costs so that these donors' government investments in needed human services are going to help people and not to paying skyrocketing health care expense.

I would like to thank you for the opportunity testify before the U.S. House of Representatives Committee on Small Business on this most important issues facing our nation and it's small employers, and I urge you to consider solutions that will impact that health care crisis in America. Thank you very much.

Chairman MANZULLO. Thank you, Mr. Weber. We appreciate your testimony here.

[Mr. Weber's statement may be found in the appendix.]

Chairman MANZULLO. Next witness, pretty famous name, Sammy Davis, Jr.—now, I have met Sammy Davis, Jr., about an hour ago—is with us today with a group called Handyman at Work, testifies that an employer that cannot afford to offer health and accident insurance. Is that correct?

Mr. DAVIS. That's correct.

Chairman MANZULLO. Mr. Davis, come forward for your testimony.

STATEMENT OF SAMMY DAVIS, JR., PRESIDENT AND OWNER, HANDYMAN AT WORK, MUNDELEIN, IL

Mr. DAVIS. Thank you. Good morning Mr. Chairman and congressional members. Handyman at Work is a small business, a newly launched business and I am president/owner of Handyman at Work, and in addition, another business called Breakaway Advantage, so I've got a unique perspective, I think, with the impact of health care on small businesses.

There's really three primary areas that we've have been hit with, and that's access and affordability; there's also the issue of the complicated procedures of the processes, and lastly, there's an issue with protective health information to the employers.

In terms of access and affordability, based on the high cost of health care insurance, we actually did our business plan and financial plan about a year ago, before we launched this business, and we had allocated costs for health care insurance. In going back and revisiting that plan about every 90 days, we found it was escalating right off the chart. And it was beyond every projection that we had imagined, and at that point we decided would were not going to offer health insurance or health care to our employees. We have been fortunate and it has kind of changed the graphics of employees that we have. Every one of our employees are married. Their insurance coverage is through their spouses, so they do have some form of health care coverage. In revisiting this, though, the costs are skyrocketing right off the charts for their affordability, too, and they've asked for the company, as an employer, to help them offset those costs.

We've looked at a number of different options at this point. Some of the larger insurers, some insurance brokers, and so forth, and that's where it goes into the second area, which is complicated procedures and processes.

At this point, it seems one of the ways to lower the tier for some of the insure costs are taking on additional administrative responsibilities as a business owner. And at this point, we don't feel we have that kind of expertise to do this properly, and with the complicated procedures, and what the employees are asking for at this time, we really don't have the resources to do that. So, we've kind of pushed back from there.

One of the other things that have happened is because we are small, we have four dedicated full-time employees at this point, and we've noticed that from the insurance quotes that we've been getting for health care coverage, if we get to the eight to 10 employee tier, there seems to be a significant drop. Another drop at 20 employees and above. So, it seems to be this is a severe penalty

for start-up businesses and businesses with small numbers of employees.

The last aspect that we run into has to do with—it's linked to health care and the Patients' Bill of Rights. And this is where the employees and self-employed individuals, they're expecting informed consent on what's going to happen with disclosure of personal health information. And there's a number of restrictions with that and responsibilities.

What we do find, though, is that in a lot of cases, as an employer, we aren't informed of what is going on with the employee in terms of medications, sometimes with health care, and we're open to a lot of risks that we're not aware of. And in our case, in the Handyman business, we've got people on medications that could expect dizziness and other things, and they could be on a second floor of a roof, they're doing things for individuals; there are a fleet of vans on the road. And we really need to have access to a lot more medical information to make some very informed decisions and to have a safe work environment.

Chairman MANZULLO. Appreciate that very much.

[Mr. Davis's statement may be found in the appendix.]

Chairman MANZULLO. The next witness is Pat Canary. Is that how you pronounce it?

Mr. CANARY. Yes, that's right.

Chairman MANZULLO. Or as an Irish, a cannery, is that——

Mr. CANARY. It's Irish.

Chairman MANZULLO. Okay. All right. Pat Canary is the owner of PHC Enterprises, Inc., and d/b/a AlphaGraphics out of Vernon Hills, Illinois. Welcome here to the Small Business Committee and look forward to your testimony.

STATEMENT OF PATRICK H. CANARY, OWNER, PHC ENTERPRISES, INC., DBA ALPHAGRAPHICS, VERNON HILLS, IL

Mr. CANARY. Thank you very much. It's a privilege to be here this morning on this very important topic, and the chance to present one man's view of health care issues facing small businesses. I've owned a small quick printing business for the past 11 years, and typically we have six to seven full-time employees, so we're under that magic 10, where the health care, their quantity discount. Our employees include two experienced graphic designers, two experienced offset press operators, and customer service and sales representatives.

We have a significant investment in state-of-the-art equipment, technical equipment, including computers, digital printing equipment, a new computer-to-plate technology.

Our business is service-oriented, fast-paced, and price-competitive. Recruiting, training, and retaining key, experienced employees has been a crucial factor in our success of our business.

Before taking the plunge into small business ownership, I worked in the corporate world for 25 years; spent 15 years with Deloitte & Touche in management consulting, achieving partnership, and then spent 10 years with a large international transportation company as an operations executive. And as a corporate executive, I can tell you that I always took health care insurance for granted. It was always there, administered by the personnel de-

partment. The benefits were good; the company paid a significant share of the premium; and cost to me was relatively insignificant.

When I became a small business owner, my view of the health care insurance dramatically changed. When I started my business 11 years ago, a lot of similar small companies did not provide any health care insurance for their employees. However, in a few short years, I noticed that small companies like my own were starting to do that. And because I wanted to recruit and retain good people, I felt I needed to do so. I wanted to provide group coverage wherein the company contributes to the employees premium.

After researching the alternatives, and there were not many, I opted to retain a reputable employee leasing company. Employee leasing companies take on many small businesses to provide payroll services and group health care insurance, and other personnel related services. That idea—the idea that they could provide that group with better rates for the health care, this approach seemed to work for a while. But then suddenly my rates for both payroll services and health care rose sharply. I shopped around and went through the hassle of changing employee leasing firms.

Again, this worked for a while, and then suddenly my rates rose again. So, at that point, I decided employee leasing companies wasn't the answer anymore, so I engaged a payroll service to handle that, and I engaged an insurance agent to help me look for a plan that we could come up with that could fit, and we came up with an alternative where—an appropriate PPO insurance plan for my employees, and that was reasonable, again, for a short period of time. But then the increases started coming.

One of my key employees found that he could get insurance less expensively out of our group, on his own, but after a year came back, because that didn't work for him after all. In the last two years, my insurance rates have gone crazy. From 1999 to 2000, we had a 19.7 percent increase in our health insurance rate. And from 2000 to 2001, we had a 16.8 percent increase on top of that. With these rate increases, I instructed my insurance agency to get—insurance agent, to get rate quotes from a number of other insurance companies. After analyzing the rates and benefits, we found there was no advantage in shifting companies. It was the same.

In the meantime, another one of my key employees came to me with a situation wherein he used some health care services, and with his co-pay, and then invoices they sent following, he—he was not getting covered very well. And he had an increase in his premium. He, too, was able to opt out of our plan because, fortunately, he had gotten married to a lady who is on a big company's plan, and that, as you say, was another option. But that isn't always the case.

As the rates go up, the small businessman, and particularly the 10 and under, we are in a—between a rock and a hard place. We have to watch our cash flow and maintain our costs to stay in business and be healthy, and yet we still want—need to retain good key employees.

So, you look for your alternatives, and there aren't many for the small business company. You know, large corporations, labor unions, large specialized industry association, have the opportunity

to put groups together for health care cost efficiency. Small business has no such option.

My research has taken me to look at some other things that are going. Some of the Chambers of Commerces are starting to try to put groups together. Some associations, like the Tooling Manufacturing Association located in Park Ridge, has put together a plan for their industry group, and I would urge you to call Bruce Baker, their president, to find out. They've been doing it for 40 years, and they've learned a lot about putting together groups of companies in they're association. Unfortunately, it doesn't help me because I'm not in their industry, but they are somebody to talk to, and I—their name and phone number is in my written testimony, as well as the Chamber in Libertyville is working on it; the Chamber in Naperville have been working on it for six or seven years. I'm hoping something can come out, but they're not ready yet and they're all concerned about these spiraling costs and what we are facing now.

So, in closing, let me just say that as an experienced business executive, and now a small business owner, I am extremely frustrated and concerned about the future of small business and health care. Small businesses appear to have few options at this point, but must find a way to stay in business.

And if the Patient Bill of Rights, which has—you all are facing right now, if those implications aren't thought through, and if rates continue to spiral upward, and if small businesses can be sued, then speaking for small businesses, forget about it.

Chairman MANZULLO. Well, you do have opinions.

Mr. CANARY. Thank you.

Chairman MANZULLO. I told you I admire you, sir. And thank you for your testimony.

Mr. CANARY. Thank you for having me.

[Mr. Canary's statement may be found in the appendix.]

Chairman MANZULLO. Our next witness will be Erika Berman. Erika is a Senior Human Resources Manager at The Revere Group, Limited, in Deerfield, Illinois. We welcome you to the Small Business Committee and look forward to your testimony.

STATEMENT OF ERIKA BERMAN, SENIOR HUMAN RESOURCES MANAGER, THE REVERE GROUP, LIMITED, DEERFIELD, IL

Ms. BERMAN. Thank you. Good morning, Mr. Chairman, Mr. Kirk, Mrs. Biggert. My name is Erika Berman and I'm the Senior Human Resources Manager of The Revere Group, located in Deerfield, Illinois. I am pleased to be able to testify today on behalf of the U.S. Chamber of Commerce at this field hearing on the issue of small business and health coverage.

The Revere Group is an established business and technology consultancy. We help companies adjust technology and business challenges in areas such as Enterprise Application Development, Supply Chain Management, Customer Relationship Management, and Project Management. The Revere Group was founded in 1992. We are headquartered in Deerfield, Illinois and have offices in Milwaukee, Charlotte, Boston, Cleveland and Denver. We currently employ approximately 400 employees. In 1999, we had revenue of

58 million, and in 2000, revenues of 68 million. So I realize I'm on big side of this panel today.

The topic of your hearing is both important and very timely. For The Revere Group and for thousands of businesses in Illinois and around the country, being able to provide quality health coverage is essential to our ability to do business. But finding and keeping affordable health coverage is not easy. Once you have coverage you like with a doctor and hospital network that you'd become accustomed to, huge premium increases can force companies to change plans. That is exactly what we were forced to do.

As highlighted in my previously submitted written statement, with our health and dental plan expiring June 30th, 2001, The Revere Group began the renewal process in April. Our provider at the time presented us with a 29.4 percent increase in our health insurance premiums, and a 14.8 increase in our dental premiums. This would be a combined increase of approximately $450,000.00 that would be shared by The Revere Group and our employees. Given the recent economic downturn, and the softness in the business and technology consulting arena, this increase was not something we could afford at this time.

With the assistance of an insurance broker, The Revere Group was presented to a number of potential providers. Our goal during this process was to be able to offer our employees comparable or better coverage than they currently had, and to contain costs as much as possible for both the employees and the company. This was coupled with the challenge of finding a national provider who could support all our locations.

After reviewing proposals from three potential carriers, we settled on one for our health insurance. The new provider offered a 15.3 percent increase from our current premiums, guaranteed our first year rates for the initial 12 months of the contract, and also agreed to a second year rate cap guarantee provision, depending on our incurred lost ratio. While the coverage with our new plan is better in most situations, we were no longer able to offer a managed care option, only a PPO option. We chose to offer two PPO's, a high coverage option and a lower cost, low coverage option. The high option plan is most like our old point of service managed care option. For those employees previously enrolled in the Point of Service, they had over a 30 percent increase in their portion of the premiums to receive comparable coverage. The one-third of employees who were on the PPO plan with the old carrier actually experienced a decline in their portion.

Additional efforts to control costs included increasing doctor visit co-pays and introducing a three-tier formulary drug program. For dental insurance, we chose to the stay with our previous provider because we were unable to find comparable coverage. This was a 14.8 increase to premiums, and included some minor plan cases to the managed care option and implementing a Blind PPO option.

What my written testimony did not include that I'd like to take a moment to point out, was the time involved in actually making this transition. Similar to other small businesses, we have small corporate functions. The Revere Group's human resources department is made up of a staff of two and-a-half employees, a benefit administrator, a part-time manager, and myself. During the

months of May and June, approximately 60 percent of my time, and close to 80 percent of the administrator's time was spent on this transition.

Like many small employers who offer health coverage, we do so because it's good business practice, and helps us retain and attract employees. The Revere Group competes for business and talent with companies like Accenture, Ernst and Young Cap-Gemni Sapiant, a number of other technology consulting firms and other businesses that employ technical professionals. Not offering high quality affordable health insurance is not an option for us.

We hope Congress does not pass legislation like the Kennedy-McCain Health Care Bill that passed the Senate last month. Our business cannot afford to take on unlimited lawsuits, nor can we afford to the pay the extra cost that allows unlimited lawsuits against our health plan. The numerous health plan mandates here in Illinois and in other states, and the double digit increases to insurance premiums, has shown that those liability costs that come with the Kennedy-McCain Bill will not be absorbed only by the insurance industry. Ultimately, employers have paid for every single one of these well-intentioned but costly health plan benefits. We need some health plan relief just like the tax relief passed earlier this year. Unlike large businesses, The Revere Group doesn't have the resources to self-insure under federal ERISA laws.

Furthermore, like us, more and more small businesses have employees in two or more states. Under legislation like the Small Business Health Care Fairness Act, sponsored by Representatives Ernie Fletcher and Cal Dooley, small business could purchase coverage through associations and other organizations that meet federal requirements.

In addition to the Fletcher-Dooley legislation, permitting Association Health Plans under ERISA, some other ways Congress can help small businesses and working families with their health plan costs include: Modifying the Medical Savings Account program to allow both policyholders and employers to make contributions; lower the deductible thresholds and permit full MSA funding of the deductible; permitting individuals who pay their health insurance premiums without employer assistant to take a full tax deduction to those costs; and establishing a refundable tax credit for low to moderate income individuals and families for the purchase of private health coverage, including premiums to participate in workplace coverage.

Small businesses are the backbone of our nation and we have driven much of the economic boom of the 1990's. We are also seeing our share of the economic bust. So when we get hit with large health plan rate increases, we need to make adjustments in our overall business plan to compensate. Our bottom line is not growing at the same rates as our health plan increases. Health coverage helps insure access to care when you need it, and economic security for working families. Congress needs to make access through affordable health coverage for small business a priority for the health of our families and for the health of our economy.

Chairman MANZULLO. Thank you very much.

[Ms. Berman's statement may be found in appendix.]

Chairman MANZULLO. I'm going to take a few minutes and ask some questions, initially, then unfortunately, I have to get back to Washington because of that huge Gulf War Bill. In fact, we—a lady from Freeport, Illinois, Donna Steel, her husband is probably the youngest Gulf War veteran to die of what we know as Gulf War Syndrome. We've been working on that now for about three years and we have been fighting the Veterans Administration. Apparently, it doesn't make any difference whether it's Democrat or Republican President, it's always the veteran versus the VA, so I've got an appointment back in Washington this afternoon.

I've got a couple jurisdictional questions, and I want to start with you, Ms. Berman.

Ms. BERMAN. Okay.

Chairman MANZULLO. You stated on page 8, "Unlike large businesses * * *"—now you've got four hundred employees, "* * * Revere Group does not have resources to self-insure under federal ERISA laws." That means you're operating under state laws in several states?

Ms. BERMAN. We can self-insure. We just don't have the funds to do it. So self insurance was an option that we looked at as we went through this renewal, but we were unable to do it because of the costs.

Chairman MANZULLO. But are you still under ERISA in terms of being free of state mandates?

Ms. BERMAN. I'm not sure of the answer to that question. I mean, I know that we are under ERISA guidelines and we are still under state mandates in terms of having to offer certain health provisions.

Chairman MANZULLO. You're under state mandates because—okay, so then you're not total a hundred percent ERISA.

Ms. BERMAN. I think so. I'm not sure.

Chairman MANZULLO. Judy, would you know the answer to that?

Ms. BIGGERT. I think probably the preemption takes effect if they have insured under——

Chairman MANZULLO. If they self-insure——

Ms. BIGGERT. If they self-insure, but if they don't, then under the state mandate.

Chairman MANZULLO. Okay, thank you.

The other question I have, and I can't tell you how timely this is. Mr. Weber.

Mr. WEBER. Yes.

Chairman MANZULLO. We have been looking at the Associated Health Plan that is in the Fletcher—Dr. Fletcher Bill of Rights—I'm sorry, Patients' Bill of Rights, and from what I gather from your testimony is what you want is to be able to get into the Association Health Plan.

Mr. WEBER. We'd like to be able to pool small, non-profit employers together.

Chairman MANZULLO. Right. That would be an AHP, but the problem that I see with the definition—Do you have language there Congressman? Paul, do you have it? Where is it?

Mr. DENHAM. It's right here.

Chairman MANZULLO. It's in the back of the book. It's under Section 801. Association Health Plans does not appear to pick up the definition of a not-for-profit.

Mr. KIRK. Right.

Chairman MANZULLO. So, I'd be willing to work with you, Congresswoman Biggert, and you, Congressman Kirk——

Mr. KIRK. I think we have an amendment form.

Chairman MANZULLO [continuing]. For an amendment. And, Doug, I would get a hold of your folks in Washington, and they need to start waving some red flags on that immediately. I mean, Red Cross can't get in, United Way can't get in.

The churches, they may have the many—may have similar problems. And——

Mr. WEBER. Well, there's hundreds of thousands of people employed in the non-profit sector in the country and they're mostly small employers, and so if there is a way to pool these groups together——

Chairman MANZULLO. Well, that's what the AHP would do; it would allow you to do that. But I just think this is an error in drafting.

There is no reason why you should not—not-for-profit should not be included in that.

So, Paul, if you could get on the horn right away and draft an amendment on that and put all three of our names on that; do you want to do that? I'm sure you can be pulled into it.

Mr. WEBER. Our national association will be called today and let them know about this. I think that would be great. It would provide assistance.

Chairman MANZULLO. The other question I have is somebody testified that insurance went up 47 percent.

Mr. WEBER. Yeah, yes.

Chairman MANZULLO. I mean, I just, you know.

Mr. WEBER. That's a cost increase based on our experience in the plan, and that was from our local insurance provider.

Chairman MANZULLO. Because of the small number of employees.

Mr. WEBER. Because of the health—we had a catastrophic health—a heart—heart issue, and we had—several people had catastrophic health issues. They're fine now, they're back to work, but the costs—they're trying to recoup their premium, basically, is what they're doing.

Chairman MANZULLO. Just from you?

Mr. WEBER. Correct.

Chairman MANZULLO. Why can't insurance companies, and they can, take a hundred employers and all their employees and treat them as one group?

Mr. WEBER. I don't know. I can't answer that question.

Chairman MANZULLO. They can.

Mr. WEBER. They can.

Chairman MANZULLO. They can under the present laws. The question is, why aren't they doing that?

Mr. WEBER. Our premiums are directly in relationship to the cost experience of our group. It's experience rated group.

Chairman MANZULLO. I noted, I think, Erika, when you changed companies, did you keep one of the old companies of the PPO?

Ms. BERMAN. We kept—no. We went to—for our health insurance, we went to a completely new provider.

Chairman MANZULLO. Right.

Ms. BERMAN. We had been offering a managed care option, and then we went to offering two PPO options.

Chairman MANZULLO. Right. But the PPO option that was similar to the old plan, it was actually a decrease?

Ms. BERMAN. For those people that had been PPO plan with our old—in our previous option, we had a Point of Service and a PPO.

Chairman MANZULLO. Right.

Ms. BERMAN. And those people that had been on the PPO with the old plan and transferred over to the new PPO had a decrease in their premiums.

Chairman MANZULLO. Well, that's interesting. Was that the same insurance company or different insurance company?

Ms. BERMAN. Different insurance company.

Chairman MANZULLO. That rated that PPO?

Ms. BERMAN. Well, we think what had happened is that when we started really getting deep in the cost is that our previous provider had been passing along a flat rate increase to us all along, and what should have happened is when—we're, again, an experience rated, so they look at experience ratios. When you looked at the experience ratio, we should have been increasing our Point of Service employee's cost more than our PPO people. Our PPO employees, which was about one-third of our employees, their experience ratios were in the 50 percentile.

So, the insurance company was making a lot on those people, and then on our experience ratio on the Point of Service, employees was over a hundred percent, so they weren't making anything on those people, they were losing money. And we had been just passing off a flat rate increase, but when we actually had to split it out, we were charging the PPO people a lot more than we should have been, not understanding how the costs were playing out. So, when we actually split it this year, we were able to find that we had been overcharging them, because we had thought it was the higher cost option, and we brought their cost down to be in line with the new options.

Chairman MANZULLO. Let me—This may not be a word of comfort, members of Congress do not get a fancy—and I don't care—we have Blue Cross-Blue Shield; do you have that?

Mr. KIRK. Standard option.

Chairman MANZULLO. Standard option. No chiropractic coverage, very little dental coverage, no orthodontic coverage. And I've got three teenagers. Fortunately, two have straight teeth and the other one was three thousand dollars and we had to write the check ourselves on it. The only difference is in the Federal Employee Health Benefit Program, you have your choice of programs. But as it turns out, if you are a member of Congress, there is only really one choice because you live in two different cities, and that's Blue Cross-Blue Shield.

You know, I'm not criticizing Blue Cross-Blue Shield, because they have worked, along with many companies, in trying to keep down the cost of it. What we've been trying to do, and it's been a subject of a hearing that we're going to have on Wednesday, on the

HCFA—the horror stories, is to show that a lot of the costs of spikes in health and accident insurance premiums, has to do with the manner in which the government, the Health Care Financing Administration, also called "Hell Can't Find Anybody," the manner in which they are treating the medical providers. As many times, as second class citizens, dragging 'em into court, outrageous fines, unreasonable guidelines, no guidelines, and, in fact, we're going to have a local chiropractor who got a bill for two hundred fifty thousand dollars from HCFA. By the time we were done with him, it got down to zero because the people at HCFA don't know the difference between X-rays and X Files. That the total incompetent federal government organization that is running the entire health care industry, and they're the ones that another party wanted to be in charge of prescriptive drugs of the entire country.

So, I appreciate you're being here. I've got to leave, unfortunately. I'm going to turn over the gavel to Congressman Kirk, and thank you, Congresswoman Biggert, for coming. Appreciate it very much.

Mrs. BIGGERT. My pleasure.

Chairman MANZULLO. Thank you.

Mr. KIRK. Well, the Chair recognizes Congresswoman Biggert.

Mrs. BIGGERT. Thank you.

Miss Kuhn, you mentioned in your testimony that with the rising health care costs that are taking a larger share out of the take-home pay of your employees, is the company passing on more of the health care costs to the employee, or is it just——

Ms. KUHN. No, we're not. We are bearing the burden of those increases, but what's happening is that as our cost as a company is going up, what the insurer is doing is reducing coverage levels. For example, we had a plan, a PPO plan, that covered employees for one hundred percent of their expenses if they went to a preferred provider. Not only did we experience the 18 percent increase, but the insurer took that level down to 90 percent.

Mrs. BIGGERT. Are some of the employees not taking coverage, then, because of costs? Is there any employee that's saying, well, I can't afford to take the coverage?

Ms. KUHN. I have some people who are insured by spouse's plans in larger companies.

Mrs. BIGGERT. Right, but is there anybody that doesn't have any coverage at all? Is that true of any of you?

Mr. CANARY. Yes. I have one young fella looks at what—even though the company would pay part of his premium, he has to pay the remainder of it, and he looked at it and he said, "Well, I'm young and healthy. I ain't paying it. Nothing is going to happen to me." And that may be true for "x" number of years, but at some point he might need it.

Mrs. BIGGERT. Would that have any effect on his chances of getting health insurance in the future? Is there any penalty that they pay?

Mr. CANARY. I'm not aware of any.

Mrs. BIGGERT. Mr. Davis.

Mr. DAVIS. I have had situations where individuals have turned down the offer of employment because of the lack of health care coverage, and in those cases they were either young, single individ-

uals that didn't have an option of getting insurance other places, or they were single parents and needed the additional coverage.

Mrs. BIGGERT. But they wanted to make sure they had a job where they had the coverage?

Mr. DAVIS. That's correct.

Mr. CANARY. Could I add just one thing to your question?

Mrs. BIGGERT. Yes.

Mr. CANARY. And that is, I'm not sure what happens if this young person decides later to join the insurance plan, he might have to have a physical for the insurance company or something; whereas, if he's hired on, he's got 30, 90 days, or whatever, he doesn't need it.

Mrs. BIGGERT. But if he comes back and decides in the second year of his employment or something, that he should take it, there is nothing that bars him from coming into the plan, other than maybe his physical——

Mr. CANARY. That's my understanding.

Mrs. BIGGERT [continuing]. Abilities.

Mr. WEBER. We do have several employees who receive reimbursement through the Kid Care Insurance Program, which, I think, is something available to all employers, small and large, that I encourage Congress to continue supporting. That's a federally funded program, and it does—one of the greatest challenges of employers don't want to recognize that there they're paying their employees at a lower wage, so they're reluctant to bring the Kid Care Program to the employee's awareness, and so we have been trying to get employers to promote the Kid Care program. It is an insurance, direct reimbursement of the portion of the premium, so that's an excellent benefit for smaller employers.

Mrs. BIGGERT. And in Illinois that's been hard to get the word out, I think, for——

Mr. WEBER. Yes, it has been.

Mrs. BIGGERT [continuing]. For people to sign up for that. I know I was in the Illinois legislature when it came through Illinois from the federal government. It's been a problem that we had so few; I think we started out with forty thousand or something, and it was not up to speed.

Mr. WEBER. But it's a good benefit for lower paid employees.

Mrs. BIGGERT. So, would you think of some ways to advertise that to employees?

Mr. WEBER. There is a variety of individuals and organizations who are enrollers. United Way of Lake County has been an enroller of people, and we've gone out to companies to offer seminars and work shops and spread the information around, make it available. The Lake County Health Department, many of the hospitals in Lake County, are all participating as enrollers, and an employee has to sign up. Based on their income, they can receive a portion back of what they're paying their out-of-pocket insurance premium costs. So, it's a great program.

Mrs. BIGGERT. In so many cases it seems like we have the Bill of Rights, and there's concern about the HMO's denial of care and the liability issue, and yet we're seeing HMO leave Illinois and pull out of the insurance, which really concerns me that we're not going to have even the health care providers to be able to give the care,

depending on how we enact legislation or what we do. And that's why I am concerned about doing no harm in some of these cases. Have you had companies that have actually left Illinois; just give up and said, well, it costs too much? I know we had to provide more reimbursement to the HMO's, as well as hospitals, in our last appropriations bill, in '98/'99, and now we are looking at this again. Have you had—has anybody had any coverage that was lost?

Mr. KIRK. Yeah, we've lost all of our Medicare HMO's in Lake County, yeah, under Medicare.

Mr. WEBER. A number of non-profit organizations have closed programs, or shut down programs, because of staffing costs.

Just this past week, Catholic Charities of the Archdiocese of Chicago announced it was laying off 36 employees and not filling another 32 vacancies, 68, approximately, employees, because of an increase of only one-half of one percent in their funding, primarily from the state, but that was direct relationship to cost increases in the organization, much of which is tied to employee benefits and health care.

Ms. KUHN. We haven't experienced that exact scenario, but when we had fewer than 10 employees, we actually had a difficult time finding a plan that would provide coverage for fewer than 10. In fact, we were never able to identify a dental plan for fewer than 10 employees.

Mrs. BIGGERT. I know that I'm from the 13th Congressional District and my predecessor Harris Fawell, who was head of the Workforce Protection Subcommittee of the Education Committee, and he had for many years sponsored the Patient Access Bill and I know that it passed last year and it passed the year before that in the House and it has passed the Senate, but somehow it has never been signed into law. This is to ensure that those 43 million people will find insurance, or be able to be insured, particularly through the associations. That would certainly help the non-profit, but is there anything that you see as far as what we should be doing with access to insurance that we haven't talked about that we can do for those people that have to have the spouse insurance, that we can be able to offer through legislation, like the savings accounts? I know we've talked about that; is there anything else that you can think of?

Ms. KUHN. I think one of the things that Sammy mentioned and that I also heard it from Erika, was that putting a plan together for small company takes a considerable amount of time and effort. If Congress can put some effort toward prepackaged plans, I think that would save us a lot of time, because when you have just two or three employees, chances are you're not going to have a Human Resources, HR expert, on your staff, and that puts a great burden on the other employees who don't have specialties in those areas.

Mrs. BIGGERT. Well, somehow, I don't know if Congress can be the medical provider in putting together a plan, but I think that what we can do, really, is to remove the obstacles and the barriers for those companies to be able to operate without the rules and regulations, that we have. Having been in the Illinois Legislature, I know that there are also bills that are passed within the Illinois Legislature that are also mandates for health insurance. Do you

have any ideas on what is happening in Illinois that causes a barrier for you to be able to provide affordable insurance?

Ms. Berman.

Ms. BERMAN. Just some thoughts on that.

I think the mandates that have been passed are all good. I mean, there are things like fertility and contraception, and I think those things are all important, and I don't think that those are the things that have added huge, huge costs, you know, to our plan. But some of the—I remember just in recently signing our contract with our new provider, we had to—there are some thoughts on mental health, providing comparable mental health that I think could be very costly. And then we also had to sign something saying that we weren't going to offer trials in cancer treatments. So, I mean, those types of things, if they become mandated, I could definitely see more severe increases, too, in our health premiums.

Mrs. BIGGERT. That is something that we find in balancing, because we have all the different groups coming in and saying if we don't have the funds for the research and development, we're not going to be able to find the cures. Then all the people that are in health plans want the money coming out of the same pocket, but it still is something, you know, that we are really looking at.

And I can remember what we used to call the drive-by deliveries, or the drive-by mastectomies. You know, women weren't allowed to stay in the hospital more than 24 hours after having a baby, and I think that we in Congress thought that was unreasonable, as did the State of Illinois. But those things do all necessitate an added cost, too.

So, the balance there is difficult.

Ms. BERMAN. I think on those things, though, you know, those are short hospital stays, so they don't have a big bottom line impact to our experience ratios, so that might be ten thousand, but a possible cancer case, or, you know, long-term catastrophic illness, could be hundreds of thousands of dollars.

That hits our bottom line experience ratio, and when those numbers start to rise, that's what affects our bottom line premiums.

Mrs. BIGGERT. There was talk, too, of the privacy issue, and the costs that go up. Does that bring in something like DNA, too? You know, we also have the bills, for when somebody goes in for a test and their genetic background shows that they are predisposed to a certain disease, or cancer or whatever. And if the insurance company knows that, they might not insure them, and that's been a big factor in not allowing that to be known to insurance companies. Because people wouldn't be able to get coverage. And who knows if they would ever get that even if you have a predisposition, so that's another factor, too, of knowing whether to insure somebody.

Mr. WEBER. Just to get back to an earlier question about the state. One of biggest issues in Illinois is the COLA increases, cost of living allowance, that the very small amounts that non-profits are getting in their contracting, and they're still experiencing these high insurance premium rates, health insurance rates, that they're having to eliminate staff or cut staff positions, and in the non-profit sector, as you know, there is no tax credits or tax incentive. They don't affect the non-profit sector because we don't pay taxes like the for-profit sector, so nothing that we pay in terms of premiums

or any kind of health care costs are deductible because we are tax exempt organization. So, whatever is done for relief needs to also be factored into the impact on the non-profit tax exempt sector as well.

Mrs. BIGGERT. Well, I'll yield to the Chairman now.

Mr. KIRK. Thank you.

General question. None of you oppose a basic Patients' Bill Of Rights that guarantees a second opinion or access to specialty care, right? Because I think, you know, broad based support for that.

Let me ask a bit tougher question. Except for Sammy that's already out of the business, what increase would cause you to drop coverage? I guess, Pat, this is directly for you. What would you see would be untenable for AlphaGraphics?

Mr. CANARY. Well, if we continue to have the same increases as I mentioned we had the last two years, that would. You know, I don't know how long we can keep covering it, because as you raise the question, it's those increases have taken place, we haven't passed those last two increases along to our employee's portion of the premium. We have absorbed that as our company, which affects our cash flow. And we have to manage that very carefully. So, I would say, if that keeps going up like that, at some point we'll just have to say, "We'll give you some money. Now go find it. We're not." That, coupled with the chance of being sued. And you can tell me, you all better than—I can read the newspaper. The Senate bill of Patient Bill of Rights does or does not allow the employer to be sued?

Mr. KIRK. Well, my understanding of the legislation is, if I allege in the Senate Bill that are you directly managing your health care, and I will turn that word into anything that I want it to mean, then you are now open up to a suit.

Mr. CANARY. And that's what I meant my concerns are. The spiraling cost and the chance—as a small businessman, we can't afford the lawsuits that seem to prevail this whole area. Larger companies can, but small businesses, if they get involved in a lot of litigation, they're out of business. I've seen it in my industry. I've seen it in other—with small businesses, the litigation can be, hey, that's it. That's why I said forget about it if that's gonna happen.

Mr. KIRK. Let me ask the rest of you. If you were directly open to suit, would you recommend ending your health care, or would you stick to it?

Mr. CANARY. I would.

Mr. WEBER. I don't know what impact that would have on the non-profit sector. We do have liability insurance to cover employee-types of suits. You asked about when will we drop the insurance. We would be losing employees before we would drop the insurance. I think that's the issue. We would have the costs so cost prohibitive that somebody wouldn't work for us. I think that would be biggest challenge, and we have people now that are close to getting welfare if—with all the costs they're paying for their insurance, they're better off not to work and collect unemployment or collect other type of government assistance, that——

Mr. KIRK. That's the last thing we need is less people working for United Way——

Mr. WEBER. Exactly.

Mr. KIRK [continuing]. Because it's sort of a safety net.

Mr. WEBER. Exactly. I mean, the programs and services we support are in business to help the people who have the greatest needs, and they're the people that are getting hurt the most by increased health care costs.

Mr. KIRK. Now, Michelle, in your testimony you emphasized the HIV epidemic, and I'm, you know, coming from Deerfield where we invented the AIDS test right here. It's certainly something we've dealt with almost longer than anyone else. Talk about how that experience of the exceptionally high health care costs is affected.

Ms. KUHN. Our industry?

Mr. KIRK. Yeah.

Ms. KUHN. Well, I think that HIV has affected many people in the advertising and the marketing community, and what we've really seen across the board is really high escalations in companies that provide those services, provide insurance coverage. And I also think that we haven't been able, as small companies, to provide the health education that's necessary in order to stop the epidemic or to reverse it.

Mr. KIRK. Okay. For Doug. You talked about United Way is facing a 36 percent increase in premiums in 1998; 22 percent increase in 1999; and a 47 percent increase in 2000. And it costs $703.00 a month to cover dependent care for a family.

Mr. WEBER. Right, right. Right.

Mr. KIRK. Now, we have 29 people working for Lake County United Way. How many people work, roughly, for United Way in Illinois?

Mr. WEBER. Well, each United Way, we're second largest, there is approximately 125 people that work in Chicago for the Crusade of Mercy, and then I would guess, probably 200, 250 or so, in total, they're smaller. Many one-, two-person shops. That's just the organization itself. Each of them have many non-profits that they support.

Mr. KIRK. If we could pool, even with that 250, you would be at the lower levels.

Mr. WEBER. Sure, sure.

Mr. KIRK. Then, you've got 2,800 people working for agencies you support?

Mr. WEBER. In Lake County.

Mr. KIRK. In Lake County alone you would be one of the larger employers if could you offer an Association Health Plan.

Mr. WEBER. Right. When you add up the total non-profit employment in any community, it generally is one of the larger—for the private sector, non-profit organizations, generally one of the larger employers, and we don't include hospitals and other non-profits in that; strictly the agencies we support.

That's a pretty large employment base.

Mr. KIRK. Right. See, I think this is one of the main reasons why the Johnson-Fletcher-Peterson Bill is a good one, because if we clarify this thing on non-profits, because we have a huge opportunity and this is something that I want to get to Pat. You know, AlphaGraphics is a franchise operation, right?

Mr. CANARY. Right.

Mr. KIRK. And when you went to the franchise convention or group, was there ever a talk of an AlphaGraphic's health care plan to the franchisees.

Mr. CANARY. Yes, there have been over the years. There's been a couple of attempts made. I think one of the things that affects it is—franchise, each operation is individually owned; like I own the Vernon Hills operation. And so, when you have individual owners, it's a little harder to get them together as a group, particularly when they are spread out all over the 50 states, and, ah, with the different states, ah, regulations, and so on, it hasn't—we are still looking at it; we are still trying to figure out a practical way that it can be managed.

Mr. KIRK. See, I think we can make your job easier with federal uniform standards so that a national franchise can——

Mr. CANARY. I think so. I think that would—I mean, because we have like 300 AlphaGraphics individually owned operations in the United States, and we have another 75 around the world internationally. If we could somehow get them together, but it's back to the statutes and rules and regulations, it hasn't been practical up 'til now. That's the reason why in my written testimony I mentioned I did do a little research and came up with a couple of associations that I think are doing some good things, including this Tooling Manufacturing Association. I'd love to be a part of something like that, if we could pool ours together, because they are doing some good things there.

Mr. KIRK. Mr. Davis, you're a lot of the reason why we are here today.

Mr. DAVIS. Yes, sir.

Mr. KIRK. You are below every single price break in the business at four. Have you heard anything here today that gives you hope, or is it just we're going to have grow "Handyman" until we get to the larger——

Mr. DAVIS. Well, hopefully that will be the factor.

Mr. KIRK. It's Handyman at Work in Mundelein?

Mr. DAVIS. That's right. Thank you. I have heard some very encouraging things and some other alternatives, particularly the Kid Care Program and so forth. That's something we didn't examine before. One thing that does kind of concern me, though, is that right now we are kind of reallocating what I feel are health care insurance responsibilities to our employees, to other organizations; be it to spouses and so forth. And our employees don't have the choices that they need to compare which plan is better for them. There's other implications to that, and when you asked earlier about taking on, you know, litigation and things likes that. When I pull the plug on a program, at this point I would say I would, because with the costs that are involved in some cases, based on even the numbers that Doug had here, 25 percent, 26 percent, we were looking basically at same thing, between about 26 and closer to about 29 percent for health care costs for the individual. It's such an important benefit to them that they would be willing to go after the employer for managing health care costs.

And I think that that would open us up to a lot of litigation there, so, we would probably pull the plug on it. We are looking at something that really can pool us together with other similar busi-

nesses, say, businesses that have less than 10 employees, and be able to bring down that rate.

Mr. KIRK. But if we enabled you to have an Association Health Plan, with, say, a small contractor community of Northern Illinois, you'd avail yourself of that?

Mr. DAVIS. Definitely.

Mr. KIRK. I think that's important.

Now, Erika, your testimony was great. A lot—88 percent of employers offer health care because it's right thing to do. You said 30 percent of the employers of less than 10 firms are uninsured. Here's one that really stuck out. According to your testimony, it cost $400.00 more to insure someone in a small business than a larger business, based on what you've got. Twenty-eight hundred dollars for a small business, twenty-four hundred dollars for the smaller one, just by virtue of your size.

Ms. BERMAN. We're actually, Revere actually falls right in the middle of that; twenty-six hundred per employee.

Mr. KIRK. And you've got here that "increasing costs by 10 percent, surveyed employers, 14 percent of employers would drop coverage." And if we increase by 25 percent, which is less than United Way faced, 28 percent of employers would drop coverage. So those are powerful—I think it's important to note that people in America get health care coverage if they're uninsured, but it is at the most expensive, inefficient way, in the hospital emergency room at Cook County, or any other local community hospitals.

Let me throw out—we have a big employer here in Illinois called ADM. Let me throw out an ADM plan that could help address some of these needs. ADM stands for Association Health Plans; full deductibility for small business; and Medical Savings Accounts for those who are on their own or want to be.

Give me your comments on that as a Congressional response for what we can do to help you.

Mr. WEBER. The "D" doesn't apply to the non-profit sector in terms of deductible, but I think it really provides a framework on around which to build a plan; accountability, or the association with other smaller employers, I think, is really a critical issue. Real critical issue.

Mr. KIRK. What else? Pat.

Mr. CANARY. I didn't quite get—could you explain once more exactly what that is?

Mr. KIRK. Well, I'm thinking of three things we could do to help you. Association Health Plans, so that AlphaGraphics as a franchise could offer health care, and United Way could. Full deductibility for self-employed, especially for Mr. Davis here, because you can't fully deduct your health care costs right now as a self-employed person; and Medical Savings Accounts, so that you save in a tax deferred way just like an IRA. Congress has limited Medical Savings Account, I believe, to seven hundred fifty thousand, just because the Senate didn't want Medical Savings accounts to work.

Mr. CANARY. But as I understood that, you tell me maybe, the seven hundred fifty is how many they limit it to?

Mr. KIRK. Right.

Mr. CANARY. But then I heard only twenty or thirty thousand people signed up for it, which tells me there is something wrong

with the regulations surrounding the—there is something wrong with it if nobody came to the tank to drink out of it.

Mr. KIRK. I'm not the greatest expert in the world, but I think here's what is wrong.

When Congress limited it to only seven hundred thousand, we prevented a market from even being created. And that was the intent.

Mr. CANARY. So only twenty thousand——

Mr. KIRK. Because market is so small, with only seven hundred thousand people, and nobody—I think Medical Savings Accounts are a great opportunity that you put, say, two thousand dollars a year in your Medical Savings Account; it builds up, and say you reach age 65, and there is a balance, we then let you role that into your retirement plan, because now you've joined Medicare. And so for the truly entrepreneurial, you still get to use—have some backup for your health care expenses.

Mr. CANARY. So, what is the status of that now? They put out the seven fifty, only twenty—you know, real small percentage, so it's not going anywhere. What——

Mr. KIRK. My understanding is the Senate legislation says nothing on this. Here we go.

I got Paul helping me out here. The Senate legislation says nothing on this. House legislation will lift the limits and make other changes that make these accounts much more real.

Mrs. BIGGERT. Lifts the caps as well as allowing the rollover of the unused portion.

Mr. KIRK. Right. It becomes much more viable.

Mr. CANARY. The deductibility on medical expenses on personal income tax, the threshold keeps increasing for most individuals that it becomes—you have to have a catastrophic expense to deduct anything. That's an area that could be looked at to reduce that threshold so that more individuals can deduct from their income taxes their medical costs.

As employers are having to increase their cost passed on to individuals, there needs to be more of deductibility of that expense for the individual person's personal income tax. So that—while nonprofits doesn't have a business tax deduction, the individuals from their income perspective could take more of a deduction from their taxes if they could deduct more of their out-of-pocket expense.

That's an issue that needs to be looked at.

Mr. KIRK. This legislation also would allow contributions by employers in account owners and allow payments from the Medical Saving Accounts for preventative care, which I think is a important.

Well, I have no further questions.

Mrs. BIGGERT. I just want to come back to the liability issue because I think that is an issue that we are really struggling with in Congress. There were several bills that were passed last year, and then this year, and the Senate versus the House version. Having been involved even in the tort reform when we passed that in Illinois, and then it was overturned by the Supreme Court of Illinois, when we had the caps and tort reform, we saw liability insurance drop dramatically in the 18 months that it was in existence,

and the frivolous lawsuits were also decreased enormously and then went back up after this.

My concern is certainly with the liability, and even though you say, well, employers are not going to be liable, doesn't mean that they're not going to be liable. And even as tight as you can draw it, there is still going to be the test in court over that, and that's where employers get really worried that they're going to be subject to the punitive damages, even those that are capped. And to go back and relook at the health insurance and say, well, it is voluntary, and I think we always have to keep that in mind. That insurance by employers is voluntary, and is usually done, and I think you have all mentioned, because you want to attract the best employees that you can, and you're competing with other companies for those employees, and so it does help if can you provide that benefit, then it attracts those employees. And we don't want to do anything to change that. But we want to make sure that you're not liable, because that causes a problem.

And so that's something that we'll be looking at very closely and I think that the bill in the Senate does not provide those safeguards, and once you get into the federal court, without having to go through the external review process and exhaust all remedies under that, it can go to the state court, but that's exactly what is going to happen under that bill.

Now, the House bill has more safeguards with having to exhaust all those external review remedies, and yet is that still going to protect employers from liability, and particularly, obviously, the ones that are self-insured? It is my understanding that even just picking a provider could have you directly influencing your health plan. So, I think we have to be very careful on that issue. And that's what I think we'll be facing when we go back on that.

I don't know if any of you have any other words of wisdom for us, and maybe you can submit something later.

Mr. KIRK. I have one last question. In the last year, how much time have you spent on health care issues? How many days? Rough estimate.

Ms. BERMAN. A solid, I'd say, you know, 30.

Mr. KIRK. Thirty days of this year.

Ms. BERMAN. And that's not just on this transition, but it's the claim issues, you know, employees going to the doctor and then the insurance company saying we're not going to pay it, even though they went to the doctor through the network. It's a lot of time.

Mr. KIRK. Pat.

Mr. CANARY. Yeah. Each time, as I described, we changed something or tried something new, it took weeks deciding to change, and what to change to, and then informing our employees. And it all adds up.

I'd hate to say how many weeks, but it comes in spurts. Each time you have to make a change, it's incredible how much time you spend on it for while.

Mr. KIRK. Sammy, how long does it take you?

Mr. DAVIS. Collectively, probably about two to three weeks.

Mr. KIRK. Two to three weeks for a four-person operation.

Mr. DAVIS. Exactly.

Mr. KIRK. Just on health care.

Mr. WEBER. Just revisiting, I spent a number of days myself; we've also got three other staff in our finance department that have part of the responsibility for insurance, and they have spent weeks, literally, looking at different options and it's terrible.

Mr. KIRK. Michelle.

Ms. KUHN. Probably about a week, but I also have someone in my company who has that responsibility, and I would say that she spends probably 60 to 70 percent of her time in that area.

Mrs. BIGGERT. One of the estimates shows that in the Senate bill, health costs will rise four to 10 percent if that's passed.

We don't know about the House, but I think that's something that we need to keep in mind also as we look at this, and if you know of any increases in costs that you would have to go through, we'd love to hear from you, so that we would have documentation of that.

Mr. KIRK. Well, I want to thank Congressman Biggert for coming down the road to be with us. This is, I think, a critical issue. I want to make sure, when we meet again, I hope you have coverage, and we've done the right thing, and we've done it in the way that none of you have lost coverage, because we want to make sure we have more Americans with health care coverage rather than less.

I want to thank Chairman Manzullo and Paul Denham for bringing this hearing to Arlington Heights, and my staff, Dodie McCracken, David From, Ed Kelly and Carrie Garver, for helping out with this, and also for the special support for Bill Shugers of the Libertyville/Mundelein Chamber of Commerce for helping out.

And this meeting is adjourned.

[Whereupon, at 11:35 a.m., the committee was adjourned.]

OPENING STATEMENT
CHAIRMAN DONALD A. MANZULLO
COMMITTEE ON SMALL BUSINESS
FIELD HEARING ON SMALL BUSINESS
ACCESS TO HEALTH CARE
JULY 9, 2001

At the beginning of the year, I became Chairman of the House of Representatives Committee on Small Business. I am charged with broad oversight to investigate issues involving an extremely important component of our economy--the small business community—which represents 99.7% of all employers and employs 53% of the private work force.

When my friend from the 10th District of Illinois asked me to hold a health care access field hearing, I jumped at the opportunity to investigate such a timely and significant issue. Unfortunately, small business people have great difficulty providing health insurance for their families, employees and their families.

This dilemma is uncharacteristic and ironic. Unlike larger corporations where CEOs are solely charged to provide a bottom line profit for their companies' shareholders and rarely interact with employees, most small entrepreneurs have the unique opportunity to maintain personal relationships with their workers. Small entrepreneurs are not just employers: they are also friends and neighbors. In fact, it is not uncommon that a small entrepreneur with limited resources will choose to insure his or her employees before providing for his or her own family.

Small businesses are simply not offered the accessibility to quality health care coverage at an affordable cost. I know this from personal experience. My brother owns our family Italian restaurant outside of Rockford. He has 13 tables and a very small staff. Yet, his health care premiums skyrocketed this year to where he is now paying over $700 a month for modest coverage. Frank is thinking about leaving the restaurant business and driving a school bus primarily because of health care costs. This is crazy!

The best health care system for America is grounded in Capitalism and free enterprise. Yet, Congress can still work to eliminate areas in the tax

and regulatory code that punish small business from purchasing affordable health care while enabling entrepreneurs and employees maintain control and choice in making health care decisions.

We need to create Association Health Plans to small business people like Frank so that insurers will provide more affordable insurance to economies of scale of what they offer to larger businesses and labor unions. By adopting the President's budget request to expand Medical Savings Accounts, more small businesses may choose quality insurance without being burdened by the brunt of costly deductibles. Finally, the fact that the self-employed may only deduct 60% of the health care cost is another example of how the tax code discriminates against small business. Congress should enact 100% deductibility for the self-employed immediately.

I am disturbed that of the 43 million Americans with no insurance, over 60% are small business owners, their dependents or their employees and dependents. However, I am convinced that through the hard work of the House Leadership and valuable members like Mr. Kirk and Ms. Biggert, Congress may ensure more Americans economical insurance and a choice offering the highest of quality.

I want to thank my good neighbors in the 10th District and the Wheeling Township for their kind hospitality today. I also want to commend them for sending Mark Kirk to represent them in Congress and will now recognize him for any remarks he may wish to make.

DONNA M. CHRISTENSEN
DELEGATE, VIRGIN ISLANDS

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CONGRESSWOMAN DONNA CHRISTEN'S STATEMENT

BEFORE THE HOUSE SMALL BUSINESS COMMITTEE

HEARING ON

"PROCEDURAL and REGULATORY PROBLEMS FACED BY SMALL BUSINESSES IN

DEALING WITH THE CENTERS FOR MEDICARE & MEDICAID SERVICES

formerly known as HCFA"

July 9, 2001

Thank you Chairman Manzullo and Ranking Member Velazquez for holding this second hearing to address regulatory burdens faced by the unique small businesses that are health care providers in complying with the Center For Medicare and Medicaid regulatory requirements. I commend our chair and ranking member for recognizing the special plight of these businesses, and bringing the issue of Center for Medicare and Medicaid Services (CMS) under our purview. This committee has a special perspective to bring to the debate. Having been victimized (that is the best way I can define it) by HCFA in the years I practiced, I am acutely familiar with the regulatory burdens of CMS's

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administration of Medicare, in particular, but Medicaid as well. It is a pleasure for me to welcome both my congressional and health provider colleagues. Whether testifying as an individual provider, or as a representative of an Association, you are giving voice to the years of frustration, on behalf of the thousands of physicians and other providers across this nation.

Medicaid and Medicare services are a critical part of this nation's healthcare system. Approximately 41 million eligible for Medicaid and/or Medicare nationally. Approximately 10 million are African-Americans and African American and Latino beneficiaries are more likely than their white counterparts to rely on Medicaid to supplement Medicare. In my district, the U.S. Virgin Islands approximately 19% of the population (19,914) participate in the Medicaid or the Medicare program.

Medicare was created to provide individuals of advanced age or limited resources the opportunity to obtain necessary and adequate healthcare. Today we will look at how that mandate has been transformed into almost the exact opposite in actual practice.

We, members of Congress, must bear at least a part of the responsibility for some of the paperwork and administrative burdens that are now associated with Medicaid and Medicare.

The provisions of the Balanced Budget Act of 1997 mandated that HCFA slow down the rate of growth in Medicare payments to heath care providers.

However well intended this body's actions were, then or impervious actions, in a most inefficient and convoluted way, HCFA carried out its mandate by creating more regulations – ways to deny needed medical care, legal traps for providers and a complex methodology for avoiding payments.

Would that a name change mean a substantive difference, but HCFA called by any other name without major change, would remain the same.

As we have heard from testimony at the May 9th hearing and will learn in the testimony presented today, these regulations have placed a tremendous burden on healthcare providers.

As mentioned in the testimonies presented today, caregivers who enter the healthcare profession find themselves spending more time on paperwork describing their care and justifying their actions on behalf of patients. This committee looked at the paperwork issue at our last hearing and we intend to address it through the Paperwork Reduction Act. However, the problem extents beyond the paperwork requirements.

CMS's regulations are also creating administrative burdens on healthcare providers. During several testimonies made in Congress, I have committed myself to working on this issue, and I have signed on as a co-sponsor of H.R. 868, the Medicare Education and Regulatory Fairness Act (MERFA). I support the provisions of this bill including broad regulatory reforms, changes to billing practices, and especially the provisions to increase provider education and communication and ensure proper implementation of certain physician regulations. I look forward to Reps. Toomey and Berkley testimony on this bill.

There are those who feel that MERFA is a step in right direction but does not go far enough. I tend to be among that group, although I consider the bill a good and welcome first step. In contrast, the OIG's office feels that H.R. 868 goes too far and would jeopardize the Medicare Trust Funds and possibly result in harm to beneficiaries. (Statement of George F. Grob, Deputy Inspector General for Evaluation and Inspections, Office of Inspector General, U.S. Department of Health and Human Services, Testimony before the Subcommittee on Health of the House Committee on Ways and Means).

I look forward to hearing from our witnesses this morning, on getting a clearer picture of what MERFA does and does not do, and in being one step closer

to identifying and remedying key problem areas in the administration of Medicaid and Medicare services.

Our ultimate goal is to ensure that providers of health care services will be supported rather than hindered in performing their work to the benefit of their patients and to have them be fairly, easily and promptly compensated, as well as to assist and support HCFA or CMS to finally be empowered to carry out its intended mission.

DONNA M. CHRISTENSEN
DELEGATE, VIRGIN ISLANDS

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PRESS RELEASE FROM THE OFFICE OF THE V.I. CONGRESSIONAL DELEGATE

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U.S. House of Representatives Conducts Second Hearing on Effects of Overburdening Medicare Regulations on Small Business Health Care Providers

(Washington, D.C. – July 11, 2001) – As the only physician on the Small Business Committee, Delegate to Congress Donna Christensen led her colleagues on the Committee in voicing complaints today regarding the administration of the Medicaid and Medicare programs, by the former Health Care Financing Agency, now called the Center for Medicare and Medicaid Services.

Delegate to Congress Donna Christian-Christensen and her colleagues on the House Committee on Small Business listened to testimony on Wednesday morning from small business health care providers from across the country on the Centers' administration of the two programs. The committee focused on procedural and regulatory problems which make it difficult for small businesses who provide health care services to run successful operations and provide good service to their patients and clients.

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Christensen said that the testimonies of the witnesses echoed her own experiences with this agency. "The witnesses' complaints very acutely paralleled those of our physicians, chiropractors, home health and skilled nursing agencies in the V.I.," Christensen stated.. "We have had problems in the territory specifically with how Medicare regulations are interpreted including problems with appeals, with the detrmination of covered services and with the carriers in particular. I am very glad that I will be able to support the proposed reform of this service, which is so vital to the well being of my constituents and the nation." she concluded.

The Committee also reviewed bipartisan legislation entitled "The Medicare Education and Regulatory Fairness Act (MERFA)" H.R. 868. This bill would restrict how the agency conducts itself when reviewing cases of potential abuse and limit their ability to act unilaterally against the health care industry. The Committee will conduct a third hearing on regulations during the last week of July with administrators and the Office of the Inspector General scheduled to testify.

Delegate Christensen urges health care providers who have or have experienced problems with HCFA or have questions regarding this issue to contact her directly at 202-225-1790 or he Legislative Assistant, Angeline M. Jabbar, at 202-226-7978.

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Opening Statement of U.S. Representative Judy Biggert (R-Il-13th)
House Committee on Small Business
Field Hearing on Small Businesses and Health Care
Arlington Heights, Illinois
Monday, July 9, 2001

Good Morning. I want to thank my colleagues, Chairman Don Manzullo for holding this field hearing today, and Congressman Mark Kirk for hosting it in his congressional district. I grew up in the 10th District, just east of here in Wilmette. Although many years have passed since then, I think it's safe to say that today's hearing disproves the theory that "you can't go home again."

As a member of the House Committee on Education and the Workforce, I was very pleased when Chairman Manzullo invited me to participate in today's hearing. Now, why, you might ask, would a member of the Education and the Workforce Committee be included in a hearing about health care and small business?

Well, it's because our committee has jurisdiction over workforce and ERISA issues. And what's ERISA? It's the Employee Retirement and Income Security Act, and it is the law that applies to employers who self-insure. So why am I here? It's because the patient's bill of rights *is* a workforce issue. It's also an issue that could have a dramatic impact on whether employers continue to offer health care coverage as an employee benefit in the future.

For most employers in America, health care coverage is far and away the largest employee *benefit* offered to workers. But for many small business owners, employee health care is a benefit they would very much *like* to offer, but they cannot afford to do so under the system as it exists today. And for many self-employed business owners and their families, health insurance is treated as a luxury under our tax code, which still does not allow them full deductibility.

Health care has clearly moved to the forefront of Congress' agenda – and rightly so. Depending on which estimates one uses, there are some 43 to 44 million Americans that currently do not have health care coverage. Those are frightening numbers, and they seem to be getting lost in all the clamor to enact a patients' bill of rights, which generally affects only those who currently enjoy health care coverage.

As lawmakers on the federal level, our challenge is to work with state officials, health care providers and employers to enact patient protections for those who currently are covered *while at the same time* reducing the numbers of uninsured Americans. This last point is particularly challenging -- and relevant to today's hearing -- as the majority of uninsured Americans are in families where at least one person is working full time – usually in a small business.

I believe that Congress can address this problem in three ways.

The first and long-term solution is to financially empower the health consumer.

The second and short-term answer lies with employers – businesses large and small. As our witnesses will likely testify today, Congress must do more -- by easing burdensome regulations and providing financial incentives -- to encourage and not discourage employers to offer or continue offering health insurance to their employees.

I support giving small business owners more health care purchasing power by establishing and expanding purchasing coalitions, association health plans (AHPs) and HealthMarts. Many of these innovative ideas were first advanced by my predecessor in Congress, Harris Fawell. The House has passed these measures on several occasions, but we have not been able to get them enacted into law.

And, the third and most immediate solution is to do no harm. By that, I mean we should *not* pass any measures that will increase the number of uninsured Americans by increasing health care costs and/or discouraging employers from offering health insurance as a result of expanded liability and unnecessary red tape.

As I stated at the outset, employee health coverage is a benefit – not a mandate, law, or right. If the changes we enact in Congress threaten the viability of a corporation or small business, employers could end up dropping health care or handing their employees a check and saying, "go find your own health insurance." That, in turn, will drive up the number of uninsured, compounding the problems in our system even further.

Incredibly, I have seen estimates that show that the patients' rights legislation passed by the Senate a few days ago will drive up health care costs anywhere from 4 to 10 percent. The bill also contains provisions that make it easier for trial lawyers to sue employers for voluntarily providing a health benefit to their employees, which will surely lead to a decrease in coverage.

Mr. Chairman, I don't see how any of us can justify increasing the specter of litigation and ratcheting up health care costs in the name of "protecting" patients. Plain and simple, even the most well-intentioned proposals that end up increasing the number of uninsured are bad public policy and a step in the wrong direction.

With that in mind, I am pleased to note that one of my colleagues in Congress, Dr. Ernie Fletcher of Kentucky, has put together a strong patients' rights bill that avoids many of the pitfalls found in the Senate bill while providing common-sense patients protections and implementing many of the innovative health care "access" provisions I advocated earlier. In short, I think Dr. Fletcher's bill -- which could see floor action as early as next week -- ensures, unlike its Senate counterpart, a high degree of quality patient care, and a chance to reduce the large number of uninsured Americans.

But, that's only my view. I know our witnesses today -- all of whom own, manage or work at a small business -- will have their own insiders' views of Dr. Fletcher's bill and other health care protection and access measures. I am eager to hear from those who are truly the most directly impacted by Washington's actions and match their views with what our colleagues in the Senate and others in Washington are saying their patients' rights proposals will accomplish.

Again, Mr. Chairman, I thank you for allowing me to participate in today's hearing. I also look forward to working with our witnesses, and you, and with Congressman Kirk on efforts to ensure that Americans have access to quality, affordable health care insurance.

Thank you, Mr. Chairman

Congressional Testimony to the U.S. House Representatives
Committee on Small Business

July 9, 2001
Submitted by:
Michelle Kuhn
President
Aeffect, Inc.
Deerfield, Illinois

Good morning. My name is Michelle Kuhn, and I am President of Aeffect, Inc., a small, woman-owned business located in the 10th District of Illinois. Aeffect is a marketing and communications research firm that consults with large corporations and federal government organizations.

I would like to begin this morning by first stating what we, as a group, may already recognize. That is, that America needs small business not only to allow people within this country to pursue the American dream, but also to provide our country with new products and services to facilitate economic growth and ensure America's leadership worldwide. Because so many people in our country are employed by small businesses, it is important for our Government to nurture the growth of small businesses in order to allow them to survive.

My company, Aeffect, Inc., has been in business now for seven years, and many individuals conclude that we have passed the critical 3-5 year mark when most small companies fail. In fact, within the last few years, we made the transition from micro-company with a handful of employees to a company that now employs approximately 20 full-time individuals and other freelance or part-time employees. This transition has allowed us a unique perspective on the impact of health care costs for the emerging company.

When our company was first established in 1994, we experienced considerable difficulty obtaining health coverage for our employees given that we had but a few employees. Moreover, the cost of this coverage per employee was relatively high, and in total represented approximately 5% of our company's annual revenue. Our health care costs were also quite unpredictable from year to year, and were driven unrealistically high by claims made by only 1 or 2 employees. As a company which employs a considerable number of young women of child-bearing age, we feared, rather than welcomed, pregnancies that would drive up plan costs. Similarly, we worried that the cost to insure older employees would rise above what we already considered unreasonable.

Since our size and employee count has grown beyond ten employees, however, our perspective on health care coverage has changed dramatically. Once we exceeded ten employees, our size classification pushed us into underwriting scenarios with different rate structures that made health care benefits somewhat more affordable on an individual employee basis. Additionally, with more employees, our health care plan cost per employee has been reduced somewhat. From the company's perspective, the cost of providing a fully sponsored PPO plan for our employees actually represents a relatively small expense for our company at the present time, now representing less than 1% of revenue on an annual basis. Comparatively, cost of labor is our highest expense, representing about 35-40% of revenue.

Over the past few years, however, we have also seen the cost of our health plan increase considerably, despite the fact that we have generally remained loyal to our insurer and have not incurred major claims. Last year, the cost of our plan rose about 18%, while our insurer simultaneously reduced reimbursement proportions from 100% to 90% for in plan expenses. Clearly, rising costs and reduced coverage take a larger share out of the take-home pay of our

employees, and are specifically significant for single parents who must pay for the cost of adding several dependent children onto the plan.

While I recognize that health care costs are rising rapidly, so too is the level of care that our employees are receiving. Given new diagnostic procedures that catch diseases earlier and help save many lives each year, it's hard to find fault with health care providers, insurers, or pharmaceutical companies given that they are investing heavily to make sure we live healthier lives and are ready to adapt ourselves to changing health care challenges. I do not support efforts on behalf of Congress to trim health company margins, given that I believe doing so will hamper research and development efforts that might someday save your life or mine.

In fact, I think our world's HIV epidemic provides a very good example of how alternative forms of government intervention may lead to reduced costs in the long run for small companies. As a small business that operates in an industry that has seen many individuals affected by HIV—that is, the advertising and marketing industry—we believe that Government needs to escalate its efforts to encourage people to routinely practice safe sex and to engage in testing to determine if they have been infected with the virus. Small businesses, especially in our industry, struggle with how to balance compassion for the worker infected with HIV and the costs associated with their care. Strong investments in ensuring effective preventive communication can, over the long term, reduce the burden of health care costs for small companies.

Similarly, the Government can help small companies, like Aeffect, by helping us keep our people healthy. As a result of their resources and influence in the managed care market, larger companies can provide and obtain special employee health education programs to prevent high cholesterol, hypertension, etc. in employees and to prompt healthier behaviors such as physical activity. Such preventive and health education programs are nearly always absent from small company environments. Help us keep our employees healthier by investing in health education and national prevention campaigns that over the long run can reduce our health costs. Let small businesses across the country be a special "test market" for implementation and achievement of Healthy People 2010 objectives.

Government can also help small businesses by ensuring they are treated equitably and fairly when it comes to obtaining and providing health care coverage for their employees. Specifically, government can ensure that rates a small business pays per covered life are not dramatically higher than rates paid by larger companies. Because large companies pay lower rates, they can afford to expand coverage to the employee and his dependents. This makes it more difficult for small companies to be competitive in hiring and retaining employees in a market occupied by larger companies.

Similarly, Government can help small businesses control other costs of operation in order to offset rising health care costs. As I said earlier, for Aeffect, like many small businesses, cost of labor is our single highest and most variable cost of operation. Any efforts the Government can take help us keep our employees productive will help us counter rising healthcare costs. Specifically, government can streamline the very processes designed to nurture small businesses that, at times, cause us significant labor burden and headaches.

- For example, further simplification of Government acquisition processes could help small businesses dramatically. On average, it takes several individuals within our company approximately 1 month to respond to a government solicitation for a contract proposal. Comparatively, we generally spend 1 to 1 1/2 weeks generating a similar proposal for corporations in the private sector. Compared to a larger company that may bid on the same government contract, our effort represents a disproportionately larger cost, when calculated as a share of our revenue. This argues for continued efforts to set-aside contracts for small businesses and small disadvantaged businesses.

- Similarly, while we're talking about the federal acquisition process, Congress should consider elimination of indirect cost ceilings for small businesses that are involved in cost reimbursement contracts. If locked into a 5 or 7 year contract at a specific indirect cost rate, small businesses may lose a considerable amount of money if its cost of operation increase dramatically—perhaps as a result of rising health care costs. Why should the Government expect small businesses to bear the burden of their own rising costs that in many cases are unpredictable from year to year, hence securing discounts private industry would not even experience? Alternatively, there needs to be some mechanism for flexibility in indirect cost agreement implemented with small companies.

- In contracting with small companies, many agencies negotiate for lower annual escalation factors from year to year, with the Defense Contract Audit Agency (DCAA) generally recommending rates of escalation at 2-3% per year. Given the rate at which some costs, particularly health care costs escalate for small companies, such locked in escalation factors may be unfair to small companies over time.

- Accessing capital to help small businesses grow also takes considerable time and effort. To obtain an SBA 7a loan guarantee, it has been over three months since we started the application process, and it's still not completed. This points to considerable opportunities to simplify the process to save labor cost not only on the part of small businesses, but also on the part of Government and lenders. To put this in perspective, my company's health care costs would have to increase nearly 100% year to year to equal this labor investment.

- Obtaining procurement assistance has also proven laborious for our company. It takes considerable time to secure appropriate certifications and to update information to various SBA online sources, e.g. PRO-NET. It is especially disappointing when these efforts do not generate results over time. I would encourage Government to attempt to further streamline certification processes and to engage in increased promotion of SDB and businesses that have reached out to the SBA for support. Outreach efforts to increase industry's utilization and sourcing of products and services from small companies through online listings could be especially helpful.

In summary, I would like to encourage the Committee on Small Business to think creatively and outside-the-box when it comes to helping small companies bear the burden of rising health care costs. The answer to the issues at hand may lie in helping small businesses in ways that have nothing at all to do with health.

Michelle Kuhn, MS, is President of Aeffect, Inc., a marketing and communications research and consulting firm. Ms. Kuhn works closely with organizations to provide direction and consultation in the design and implementation of research and evaluation programs. She brings nearly 20 years of experience in research and planning. Prior to launching Aeffect in 1993, Ms. Kuhn held executive positions with Millward Brown International and Market Facts/Viewfacts, two firms specializing in survey research. She spent the early portion of her career conducting qualitative research for Young & Rubicam (an advertising agency) and managing research and communications development for Andersen Consulting (a management consulting firm). Throughout her career, much of her research has focused on the health care and insurance industries, including helping organizations understand and communicate effectively with health care target audiences. Ms. Kuhn holds a Master of Science degree from Northwestern University and a Bachelor of Arts degree from Drake University. She is a member of the American Public Health Association, the American Statistical Society, the Alliance for Health Care Strategy and Marketing, the European Society for Opinion Marketing and Research (ESOMAR), and the Qualitative Research Consultants Association (QRCA).

Congress of the United States
House of Representatives
107th Congress
Committee on Small Business
Monday, July 9, 2001

Testimony of
Douglas E. Weber
President & Chief Executive Officer
United Way of Lake County, Green Oaks, IL

The rising cost of health care in America is having a negative and severe impact on the ability of health and human service organizations to help people in our country. According to the Internal Revenue Service there are over 800,000 non-profit 501(c)(3) health and human service organizations in the United States. It is estimated that at least 90% of these non-profit organizations have 25 or fewer employees. For most of these organizations, the largest budgetary expenditure is the salary and benefits of the people who work for these organizations.

The staggering cost of increased health insurance is impacting many non-profit organizations because they are not able to hire staff to perform needed services. Turnover rates at many non-profit organizations are 50% or more per year because of increased health care deductibles and out of pocket costs. This effects productivity and the ability of the organization to provide the service that they are in business to deliver. More and more employees, in lower paying health and human service sector jobs, are paying a much higher percentage of their pay for health care costs for themselves and for their dependents.

United Way of Lake County is a relatively small employer with 29 full-time paid staff. This year alone we experienced an increase of 47% in our HMO health care insurance costs. This is on top of increases in the past two years of 36% and 22% respectively. We have had to eliminate our prescription drug card this year and increase our annual deductibles and out of pocket maximums to lower the actual impact of our health insurance premiums passing more of the costs on to our employees.

Our primary source of revenue is from donations from individuals and corporations during our annual campaign. We raised over $11 million last year in Lake County thanks to the generosity of many, and are the second largest United Way in the State of Illinois and 60th out of 1,400 in the nation. Our donors would not tolerate annual administrative cost increases in the same proportions as our health care insurance cost increases. We have left several positions unfilled and cut other costs in addition to our health plan changes to accommodate our huge health care cost increases. We pride ourselves on having only a 12% administrative and fundraising cost and we are working hard to maintain that.

Our organization is not able to afford the cost of dependent coverage either and our employees must bear 100% of the cost to cover a spouse, children or both. Yes, we offer a Cafeteria 125 plan so employees can pay these expenses with pre-tax dollars, but a large portion of their pay is still going for health care costs. For each employee, this translates to an actual cost of $287 per month to cover children, $416 to cover a spouse and $703 to cover the family. Each employee

pays 100% of these dependent costs. Our organization is still in the position to cover the $319 cost per employee but this is becoming difficult.

A number of our employees who are single parents, and are paid in the $25-29,000 range, must pay 15% of their gross income to provide their children with health insurance. This is in addition to the $500 annual deductible and $2,000 maximum out of pocket costs they must incur. One of our employees who earns $32,000 annually is paying $8,436 to provide health care insurance for their
spouse and children. That translates to 26% of this individual's gross annual income. That does not include the $3,000 in deductible and out of pocket costs they must incur. That is outrageous.

Many other non-profit health and human service agencies, right here in Lake County, do not have the ability to provide employees with healthcare coverage. Something must be done to control the staggering increases that health care providers are passing on to small business, both non-profit and for-profit, and to provide affordable access to health care for all.

United Way of Lake County's insurance premiums are based on the health care costs for our small group of 29 employees. While we are a relatively healthy bunch, we have experienced a few major medical claims that have pushed up our health care cost experience. We are told that our significant health care premium increases are in direct correlation with the medical and prescription costs of our small group. Something must be done to allow smaller employers to pool together and spread the insurance costs among a larger group of employees and control health care costs.

United Way of Lake County is an umbrella organization that supports 107 programs run by 48 separate non-profit health and human service organizations in Lake County. While most of these organizations are relatively small employers ranging in size from 1 to 200 employees, when combined together their total employment is over 2,800 individuals. If we could develop a pool for health insurance among these smaller organizations we would provide a much larger group to share health care costs.

Nationally, there are 1,400 local autonomous United Way organizations who are members of United Way of America, our national association based in Alexandria, VA. In the past we have looked for a way to pool health insurance programs and have been challenged by difficulties in offering some type of national health care plan. There are potentially tens of thousands of non-profit agency staff in local United Way organizations and the agencies we support who could pool resources and share health insurance costs. Their needs to be some type of national HMO or insurance plan to offer large groups of small employers.

Virtually all of the non-profit organizations in Lake County and around this country are experiencing devastating health care insurance cost increases. This is crippling their ability to provide the much-needed human care safety net for people in need.

With increased health care costs like we are experiencing, non-profit agencies have to make very difficult choices. Do we cut staff who are the lifeblood of the organization, do we reduce or eliminate healthcare coverage for employees resulting in lost staff and high turnover, or do we eliminate services.

Non-profit organizations rely on the generosity of individuals, corporations, foundations, and local state and federal government sources for their financial support. These contributors are investing in the good work that is done by each of the hundreds of thousands of these organizations. Something needs to be done to control the increasing rate of health care costs so that these donors' government investments in needed human services goes to help people and not to pay skyrocketing health care expenses.

Thank you for the opportunity to testify before the U.S. House of Representatives Committee on Small Business on this most important issue facing our nation and its small employers. I urge you to consider solutions that will impact this health care crisis in America.

- END -

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6/29/2001

U.S. House of Representatives Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0315

Subject: Health Care Issues Impacting Small Business and Self-Employed Persons

Dear Committee Members;
There are three primary areas involving health care issues that represent a burden to small businesses.

- Access and Affordability
- Complicated Procedures and Processes
- Protected Health Information

Based on not being able to achieve effective economies of scales, small business organizations struggle with providing health care benefit programs that meet the needs of their employees and their families in an increasingly competitive marketplace. The cost of health care expenses escalate faster than small businesses can adopt cost controls and maintain their competitive position in the marketplace. Employees of small businesses are demanding that small business owners provide health care plans or make a significant contribution to offset the financial impact of medical care and treatment.

Access and Affordability - As a small business owner, access to healthcare programs, which meets employee expectations at reasonable costs, appears extremely difficult with limited options. We currently do not offer employer sponsored health care benefits to employees. Based on the high costs of health care insurance it was not feasible for my company to offer health coverage even as a shared expense. Each employee maintains family health coverage by participating in his or her working spouse's insurance program for family health protection. This approach resolves my current employee needs but does not resolve the issue for single employees or employees with spouses who do not qualify for other health benefits. It only shifts the entire healthcare burden to another business organization. In fact, my personal family health coverage is provided through my wife as a local government employee.

Providing adequate health care benefits is essential to a small business organization's ability to acquire and retain good, well-qualified employees. The competitiveness of attractive salaries weakens without a comprehensive compensation program composed of wages and health care benefits for employees. If health care programs were available that are equitable in cost and service levels with medium and larger businesses, small businesses would aggressively adopt these programs to remain viable and competitive. These affordable programs are key drivers that small businesses can leverage to alleviate health care concerns. Economical options can deliver the choice of meaningful work solutions to remove financial health care barriers, and help small business employers, their employees and self-employed individuals.

Complicated procedures and processes – Small business expend a disproportionate amount of resources providing direction, informational assistance and program clarification for their employees. To reduce program costs, small businesses with limited capabilities must perform some administrative requirements. Employees and self-employed individuals also navigate through their health care program with little understanding of the various complex guidelines and requirements. Both parties incur a high incidence of errors, frustration and wasted efforts to receive services and successfully complete health care transactions. Most small businesses lack specialized human resource expertise and comprehensive health benefit knowledge to offer the necessary employee support.

Protected health information – Employees and self-employed individuals expect informed consent before any disclosure of personal health information. Small business owners have legitimate needs to access certain health information to manage insurance plan coverage, cost management and optimize health services relative to company-sponsored benefits. In addition, a Patients' Bill of Rights should include an employee's responsibility to inform the employer of any health information that is critical to safety and job performance. A policy of non-disclosure on health information that depends entirely on employee approval can unknowingly expose small businesses to risks, accidents and liabilities to other employees and customers.

ADDITIONAL INFORMATION
Company Background
Handyman At Work is a newly launched small business that provides minor repair and maintenance services for residential homes and commercial businesses. It employees three service technicians who perform repair work at customer locations using fully stocked and equipped company vans. The business is entirely self-funded and not participating in any local, state or federal government programs or contracts.

Owner Background
Sammy Davis, Jr.
Entrepreneur and self-employed business owner in Mundelein, IL.
My business experience and management expertise spans 22 years as a marketing and sales executive. Prior to launching the new business ventures, I served as the director of marketing for a Fortune 500 business communications company.

Education
Kellogg/Northwestern University – Executive Management Program
University of Hawaii
American Marketing Association, School of Marketing

In addition to Handyman At Work, I own BreakAway AdvantEdge, which is a marketing consulting business providing high impact color printing and custom apparel for medium and small businesses.

If you have any questions or require more information, please contact me at (847) 970-9939 or by fax at (847) 970-9902.

Sincerely,

Sammy Davis, Jr.
President/Owner

Reprint courtesy of The Daily Herald Newspaper – July 6, 2001

Handyman at Work service offers help for time-starved

Kim Mikus
Lake County business

The owner of a Mundelein business knows all too well how his clients are time starved. The company he founded, Handyman at Work, assists people with small home repair projects they might not have time to do.

Sammy Davis Jr. (yes, he gets razzed about his name) knows that a small project often takes the homeowner a lot longer to fix than they anticipate. That's where his business comes in. A project that would take a homeowner a half-day to tackle often takes his technicians about an hour to complete.

The Lake County business is known for doing the small jobs that larger contractors wouldn't touch. Repairing a window, installing a mailbox, caulking, fixing a faucet, or installing a ceiling fan are examples of some of the work Handyman at Work could handle.

Davis' maintenance and repair business caters to both homeowners and commercial customers.

The entrepreneur started the firm late last year after spending 20 years in the corporate world. Davis was in marketing for Moore Corp., based in Bannockburn. Davis left the company when he continued to see the firm suffer.

Davis is using his marketing skills in running the home repair business with wife Mary Ann. They understand that your home is one of your major assets, and that it's necessary to hire someone who cares when making repairs.

The Mundelein couple, raising three children, ages 14 to 22, moved several times within the village and knows the importance of hiring reliable, quality contractors. While investigating business ideas, the couple found that demand is high in this area for dependable handyman services. Davis' role is to run the day-to-day operations. He supplies four technicians with trucks dispatched throughout Lake County.

About half of Davis' clients are dual-income families with little time on their hands. The other half of his clients are elderly or single homeowners. Interestingly, women call Handyman at Work most of the time, said Davis, 48.

Davis often works with real estate brokers to prepare a home before it goes on the market or after the home inspector finds problems with a home.

DAILY HERALD PHOTO/VINCENT PIERRI

Sammy Davis Jr. serves as president and founder of Handyman at Work, a repair service, based in Mundelein.

In his business marketing plan, Davis stresses that satisfaction is guaranteed. The work is done and then the customer is billed. He believes in fostering a relationship with his clients. A record of all his work is stored on a computer for possible future use. "Long-term relationships with our customers are important," he said.

For more information, call (847) 970-9939.

A good teacher: Carol A. Haran of Lake Forest has recently taken part in an intensive, hands-on interior redesign training workshop given by Marie Kinnaman, an authority in interior redesign and director of the Interior Redesign Industry Specialists.

Redesign is a design service that injects new life into tired, boring and outdated rooms by using the client's existing furniture and accessories in a new and dramatic way.

• Kim Mikus' column appears Tuesdays, Thursdays and Fridays. Send news to her at 50 Lakeview Parkway, Suite 104, Vernon Hills, IL 60061; or at Kmikus@dailyherald.com.

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July 9, 2001

To: U.S. House of Representatives
Committee on Small Business

From: Patrick H. Canary - Owner
PHC Enterprises, Inc.
DBA AlphaGraphics
Vernon Hills, Illinois

Re: Field Hearing Focusing on Health Care Issues
Unique To Small Business

Good morning, and thank you for inviting me to appear at this hearing before the U.S. House Committee on Small Business to present one man's view of health care issues facing small businesses. My name is Pat Canary, and I have owned a small, quick printing business for the past eleven years. My company is PHC Enterprises, Inc. DBA AlphaGraphics, located in Vernon Hills, Illinois. Typically we have 6-7 full time employees, and a couple of part-time employees. Our employees include two experienced graphic designers, two experienced offset press operators, and customer service and sales representatives. We have a significant investment in state-of-the-art technical equipment, including computers, digital printing equipment, and new computer-to-plate technology. Our business is customer service oriented, fast paced, and price competitive. Recruiting, training, and retaining key, experienced employees is a crucial factor in the success of our business.

Before taking the plunge into business ownership eleven years ago, I worked in the corporate world for twenty-five years. I spent fifteen years with Deloitte & Touche in managing consulting, achieving partnership; and, I spent ten years with a large, international transportation company as an operations executive. As a corporate executive, I can tell you that I always took health care insurance for granted. It was always there, administered by the Personnel Department, the benefits were good, the company paid a significant share of the premium, and the cost to me was relatively insignificant. When I became a small business owner, my view of health care insurance dramatically changed.

When I started my own business eleven years ago, many similar small companies did not provide health insurance for their employees. However, in just a few short years I noticed that some small companies my size were starting to provide health insurance, and because I wanted to recruit and retain good people, I felt the need to do so. I wanted to provide group coverage, wherein the company would contribute to the employee's premium.

After researching my alternatives, and there were not many, I opted to retain a reputable employee leasing company. Employee leasing companies take on many small companies to provide payroll services, group health insurance, and other personnel related services. The idea was that my company would be part of a larger group and could obtain health insurance at better rates than I could as a single company. This approach seemed to work for a while, but then suddenly my rates, for both payroll service and health care insurance rose sharply. I shopped around and went through the hassle of changing employee leasing firms. Again, this approach worked for a while, and then suddenly, my rates

rose sharply again. Benefits and service declined as well. At this point, I decided that employee leasing companies were no longer the solution for my business, and I engaged a qualified insurance agent to research alternatives for my company's health care insurance. I engaged a national payroll service company to handle my payroll, and we engaged a reputable insurance company to provide an appropriate PPO insurance plan for my employees. This plan seemed to be reasonably cost effective for a period of time. But then, the increases started coming. One of my key employees found that he could get insurance less expensive than my group plan, but after a year, circumstances changed, and he reluctantly came back on our plan.

In the last two years, it has gone crazy. From 1999 to 2000 we had a 19.7% increase in our health insurance rates, and from 2000 to 2001 we had a 16.8% increase. With these rate increases, I instructed my insurance agent to get rate quotes from a number of other insurance companies. After analyzing the rate and benefits, we found there was no advantage in shifting insurance companies. In the meantime, another one of my key employees came to me with a situation wherein he used some health care services with co-pays and then still had follow-on invoices that he had to pay, and with his increased premium, he felt that the coverage was not beneficial. He was able to get on his wife's insurance at far better rates, as she works for a large corporation. Yes, small companies do not have good alternatives in today's environment. As rates keep going up, the small business owner still must manage his costs and cash flow to meet payroll every two weeks, pay his vendors, and pay his rent and utilities. The only way to contain rate increases is by reducing the benefit structures i.e. higher deductibles and increased coinsurance levels. Certainly large corporations, labor unions, and large specialized industry associations have the opportunity to have group plans wherein the health insurance is cost effective. Small businesses have no such options.

My research has led me to a couple of group insurance situations. The Tooling Manufacturing Association (TMA), located in Park Ridge, Illinois has for some forty years operated a successful group health insurance plan for its members, some 840 companies, some 11,000 employees, and $55 million in premium per year. It may be a prime example of what can be done. I would refer to you Bruce Baker, President, TMA, (847) 825-1120, ext. 336. Of course, this group does not help me as my company is not engaged in this particular industry nor a member of their association. My research has also led me to the Naperville Chamber of Commerce, Naperville, Illinois. This chamber has been providing group health insurance plans for its members for six or seven years, for some 250 companies. It is another example of what can be done, and I would refer you to Sandy Forte of the Chamber at (630) 355-4141, as well as their Plan Administrator, American Benefits Consultants of Naperville, and Andy Carver (630) 416-3673.

In closing, let me just say that as an experienced business executive, and now a small business owner, I am extremely frustrated and concerned about the future of small business and health care. Small business appears to have few options at this point, but must find a way to stay in business. If the Patient Bill of Rights causes rates to continue to spiral upward, and if small businesses can be sued . . . . . forget about it!

Pat Ramsey

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STATEMENT OF

ERIKA BERMAN

THE REVERE GROUP, LIMITED

ON BEHALF OF THE

U.S. CHAMBER OF COMMERCE

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON SMALL BUSINESS

July 9, 2001

Arlington Heights, Illinois

Good morning, Mr. Chairman. I am Erika Berman and am the Senior Manager of Human Resources of the Revere Group, located in Deerfield, Illinois. I am pleased to be able to testify on behalf of the U.S. Chamber of Commerce today at this field hearing on the issue of small business and health coverage. The Chamber is the world's largest business organization representing employers of every size, sector and region.

The Revere Group is an established technology and business consultancy. We help Companies address technology and business challenges in areas such as Enterprise Application Development, Supply Chain Management, Customer Relationship Management and Project Management.

Our history is rooted in process and technology integration, and our consultants are uniquely capable of performing the "heavy lifting" required to architect, develop, deploy and integrate sophisticated enterprise solutions. We are known for our ability to listen to our clients' needs, identify areas for improvement, and deliver quality solutions.

The Revere Group was founded in 1992. We are headquartered in Deerfield, Illinois and have offices in Milwaukee, Charlotte, Boston, Cleveland, and Denver. We currently employ approximately 400 employees. In 1999 The Revere Group had revenue of $58M and in 2000 our revenues were $68M. Since the company's inception we have remained profitable every quarter.

The topic of your hearing is both important and very timely. For The Revere Group and for thousands of businesses in Illinois and around the country, being able to provide quality health coverage is essential to our ability to do business. Without health coverage, The Revere Group's employees, like all uninsured people, are more likely to be sick, miss work and seek necessary health care later. But finding and keeping

affordable health coverage is not easy. Once you have coverage you like with a doctor and hospital network that you have become accustomed to, huge premium increases can force companies to change plans.

With our health and dental plan expiring June 30, 2001 The Revere Group began the renewal process in April. Our provider at the time presented us with a 29.4% increase in our health insurance premiums and a 14.8% increase in our Dental premiums. This would be a combined increase of approximately $450,000 that would be shared by The Revere Group and our employees. Given the recent economic downturn and softness in the business and technology-consulting arena this increase was not something we could afford at this time.

With the assistance of an Insurance Broker The Revere Group was presented to a number of potential providers. Our goal during this process was to be able to offer our employees comparable or better coverage than they currently had and to contain costs as much as possible for both the employees and the company. This was coupled with the challenge of finding a national provider who could support all of our locations. After reviewing proposals from three potential carriers we settled on one for our Health Insurance.

The new provider offered a 15.3% increase from our current premiums, guaranteed our first year rates for the initial twelve months of the contract, and also agreed to a second year rate cap guarantee provision depending on the incurred loss ratio. While the coverage with our new plan is better in most situations we were no longer able to offer a managed care option only a Preferred Provider Option. We chose to offer two PPO options. Option A which offered 100% coverage for in network

services and 80% coverage (plus a deductible) for out of network services and a low cost Option B which is the same plan but has higher office visit and prescription drug co-pays, a deductible 80% coverage for in network services and 60% coverage for out of network services. The high option plan is most like the old Point of Service plan. For those employees previously enrolled in the Point of Service Option they had over a 30% increase in their portion of the premiums to receive comparable coverage. The one third of employees who were on the PPO plan with the old carrier actually experienced a decline in their portion of the premiums.

Additional efforts to control costs included increasing doctor visit co-pays and introducing a three-tier formulary drug program.

For Dental Insurance we chose to stay with our previous provider because we were unable to find comparable coverage. This was a 14.8% increase to premiums and included some minor plan changes to the Managed Care Option and implementing a Blind PPO.

Small Business's Place in the Economy

Let me outline for you why public policy that affects small business is so important. According to Census Bureau records, almost 90 percent of the firms in this country are businesses that employ less than 20 people. One out of five employees works for a company with fewer than 20 people, and 37 percent work for a firm with fewer than 100 people. When lawmakers in Washington pass legislation that impacts small business owners, those laws and regulations affect a lot of working American families.

Why Small Employers Offer Health Coverage

Like many small employers who offer health coverage, we do so because it is good business practice and because doing so helps us compete for workers. The fact that the tax code favors employer-provided coverage is also important. According to a 2000 survey by the Employee Benefits Research Institute/Consumer Health Education Campaign and the Blue Cross Blue Shield Association ("EBRI/CHEC-BCBSA"), 88 percent of employers said they offered coverage because it is the right thing to do.

Other important reasons for offering coverage are increased productivity because employees are healthy (70 percent) and reduced absenteeism (70 percent). Eighty percent of small employers said offering health coverage helps with employee recruitment as well as increasing loyalty and decreasing turnover. About two out of three (65 percent) say they offer coverage because their competitors offer it or because employees demand or expect it (69 percent). However, employers do step up to the plate when required: one-third of employers (34 percent) cited employee need for coverage as the reason why they offered benefits.

Why Small Employers DON'T Offer Coverage

Cost is clearly a barrier to small businesses being able to offer health coverage to their employees. In a separate study of small employers *(Kaiser Family Foundation-Health Research Education Trust 2000 Employer Survey, "KFF-HRET")*, 84 percent of employers cited high premiums as an important reason why they did not offer coverage. Not being able to qualify for group rates (57 percent) and administrative

hassles (30 percent) were also cited as important reasons. Similarly, the EBRI/CHEC-BCBSA survey found that 70 percent of employers stated that their business could not afford coverage as the reason they did not offer coverage. Finally, concern about revenue being too uncertain to be able to commit to a plan was also a reason (56 percent) for not offering coverage. This is an important factor to keep in mind as the economy continues to struggle and as health plans' own commitment to the small business marketplace wavers.

Just because an employer doesn't offer coverage to its workers doesn't mean those employees – or the business owner – goes uninsured. Many (46 percent) employers said that because their employees were covered elsewhere, they did not need to offer coverage. When those circumstances change, or when the business owner himself needs coverage, small employers will seek out a group policy.

Small Business Employees and the Uninsured

Recent trends show that more and more small businesses are offering health coverage. From 1998 through 2000 – a time of strong economic growth – small employers (3 through 199 employees) increasingly offered coverage, from about 54 percent in 1998 to 67 percent in 2000 *(KFF-HRET 2000)*. Even so, uninsured individuals are overwhelmingly concentrated in smaller companies. Nearly one-third (31 percent) of employees at firms with less than 10 employees were uninsured in 1998, and 26 percent of employees in firms with 10 to 24 employees were uninsured. Along with coverage being harder to access and to afford, employees at small firms tend to

earn less than their peers at larger companies, and larger employers often are able to pay a larger share of health plan premiums.

An alarming recent trend is the practice of employees electing to be uninsured – that is, declining their employer's offer of health benefits while not having another source of health coverage (through a spouse or parent or through a public program such as Medicare, Medicaid or the State Children's Health Insurance Program "SCHIP"). About one in six employees turn down the coverage offered them at work, mostly (61 percent) because they were covered by another plan. However, 20 percent said the coverage was too expensive to participate in the plan. Unfortunately, nearly one out of four (26 percent) of those employees who decline coverage go uninsured *(EBRI)*. This is a missed opportunity to improve the health and well-being of American working families, and one the Congress can easily remedy.

Small Businesses and Health Plan Costs

Health coverage also tends to more expensive on a per capita basis for smaller firms. Last year the average cost for employee-only health coverage was $2,426, but for small businesses (3 to 9 employees), the cost of employee-only coverage was $2,823 *(KFF-HRET 2000)* – a difference of 16 percent. Some of the reasons for this cost difference include more state mandates and regulatory requirements on insured health plans (which most small businesses purchase because they cannot self-insure), a smaller pool over which to spread risk, and higher per capita administrative and

marketing costs. And not surprisingly, recent cost increases are hitting smaller enterprises harder, too.

When asked how they would respond to a rate increase of 10 percent, 46 percent of small employers said they would change their coverage, and an additional 14 percent said they would drop their plans. If costs were to increase 25 percent, just over half (51 percent) said they would change their health coverage but more than one-quarter – 28 percent – said they would drop coverage *(EBRI/CHEC-BCBSA)*. This is significant because health plan costs are expected to rise 18 to 20 percent for small businesses over the coming year, and patients' rights legislation now pending before the House of Representatives would add another 4.2 percent. That four percent may not sound like much, but when it's combined with expected medical inflation, it will put many small employer health plans into the "uninsured warning zone."

What Congress Needs to Do – and Should NOT Do

Certainly, the last thing Congress should do is enact legislation like the Kennedy-McCain health care lawsuits bill that passed the Senate last month. Our business cannot afford to take on the expense of unlimited lawsuits that only reward trial lawyers, nor can we afford to pay the extra cost that allows unlimited lawsuits against our health plan. Anyone who seriously thinks those liability costs will be borne only by the insurance industry has not lived with the effect of numerous health plan mandates here in Illinois and in other states. Ultimately employers have paid for every single one of these well-intentioned but costly health plan benefits.

What we need now is some "health plan relief" just like the tax relief passed earlier this year! In some cases, small employers have been forced to get a new health plan because their insurer has left the Illinois marketplace. State mandates on health plans have taken away health plans' ability to differentiate themselves in the marketplace and compete for customers by offering benefits tailored to meet their needs. When they leave the market, they leave businesses with one less place to go.

Unlike large businesses, the Revere Group doesn't have the resources to self-insure under federal ERISA laws. Furthermore, more and more small businesses have employees in two or more states, and they have to arrange health coverage for their employees in each of those states. Under legislation like the "Small Business Health Care Fairness Act" sponsored by Representatives Ernie Fletcher (R-KY) and Cal Dooley (D-CA), small businesses could purchase coverage through associations and other organizations that meet federal requirements. No longer would small businesses be subject to state mandates and regulatory requirements that drive up costs, and small multi-state employers would enjoy a much simplified health care benefits program by being able to offer the same coverage to all their employees – just like larger businesses with whom they compete.

Recommendations

In addition to the Fletcher-Dooley legislation permitting association health plans under ERISA, some other ways Congress can help small businesses and working families with their health plan costs include:

- Permit insurance carriers to offer health plans free of state benefit mandates;
- Modify the medical savings account program to allow both policyholders and employers to make contributions, lower the deductible thresholds, and permit full Medical Savings Account funding of the deductible;
- Modify S-CHIP to make it easier for states to allow workers to use public program funds to cover dependent children in employer health plans instead of forcing them into a public program that is different from that of their parent(s);
- Permit individuals who pay their health insurance premiums without employer assistance to take a full tax deduction for those costs; and
- Establish a refundable tax credit for low-to-moderate-income individuals and families for the purchase of private health coverage, including premiums to participate in workplace coverage.

Cautions

What Congress should NOT do is:

- NOT expand medical liability to include employers who sponsor health plans;

- NOT establish small business tax incentives for health coverage that are restricted to employers who previously had not offered a health plan (which penalizes employers who have struggled to offer coverage);
- NOT bias small business tax incentives to certain health plan purchasing arrangements;
- NOT put employers in the position of determining employees' eligibility for tax incentives based on total family adjusted gross income. Employers are only familiar with an individual employee's wages, and then only for the job the employee was hired to perform. We don't have access to other household members' income or employees' income from additional jobs and other sources of income.

Conclusion

Small business is the backbone of our nation, and we have driven much of the economic boom of the 1990s. We are also seeing our share of the economic "bust." So when we get hit with health plan rate increases of first 20 percent and then 30 percent, we need to make adjustments in our overall business plan to compensate. Most small business's bottom lines just aren't growing at the same rate as their health plan increases. Health coverage helps ensure access to care when you need it, and economic security for working families. Congress needs to make access to affordable health coverage for small business a priority for the health of our families, and for the health of our economy.

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